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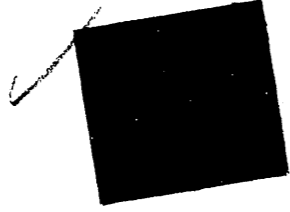
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EASTERN

F.O.
371

1947



PALESTINE

File No. 11609

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Reference:-
FO 371 / 61965

CLOSED
UNTIL
1978

61965

1947 31	Palestine	E11609 / G 1947 2
	EASTERN	

E11609 / 11609 / G
 Mr Rowe Sutton
 Treasury
 to Mr Hakin
 Dated 5 Dec
 Received 9 Dec

Question of putting Palestine out
 of the sterling Area

Last Paper

See within (Minutes)

References

See separate minute
 25/3
 Dec 10

(Print)

(How disposed of)

61965

(Action completed)
 25/11

(Index)
 WJH

Next Paper

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Reference:-
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9 DEC 1947

TOP SECRET

EX-198

4.30 PM
[Handwritten notes and a small diagram or stamp]

Mr Wright.

The economic & financial problems arising from the UN decision about Palestine have been dumped in the lap of the Overseas Negotiations Committee, which will set up a sub-committee to prepare a paper of ministers. This is a cabinet instruction.

We have to nominate the FO member of this sub-committee. Who should it be?

As a result of this cabinet instruction I have received the attached letter from Mr Rowe Dalton giving his personal Treasury view. I should be grateful for observations on the reply which I should send.

Reginald
5/12.

Mr. Rowan from the
MOR
6.12

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1. On the first point I suggest that F.O. should be ~~represented~~ represented by a member of E.R. or U.N.(E) Dept who would get political briefing as necessary from E. Dept.

2. On the Treasury paper I have 3 main points: (a) it underestimates the chances of chaos. It will almost certainly be impossible to set up a Arab state. If so the Joint Economic Board will not work and the Jewish state, while not having to depend so much of its customs revenue in supporting the Arab state, will be acutely non-self-supporting in food. I imagine that all this is an extra argument for blocking.

(S)

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(b) It is essential that confidence in the currency should be complete until at least May 15, since we shall be administratively responsible until that date.

(c) More attention should be paid to the position of Transjordan. It would be disastrous politically if we had to exclude T.J. from the sterling area at this point or block its revenues. It will have a rough enough time as it is & this would be the last straw. T. J. currency being the same as Palestinian this may cause complications.

3. C.O. have prepared separately the attached paper on currency for Jerusalem, primarily to serve as a brief for the U.K. representatives on the Trusteeship Council, which is now working out a statute for Jerusalem as a separate entity.

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Minutes.

I presume that this paper should also now be dealt with by C.V.C. There do not seem to be any obvious political points in it.

P. B. Brown

7.12

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NOTHING TO BE WRITTEN IN THIS MARGIN.

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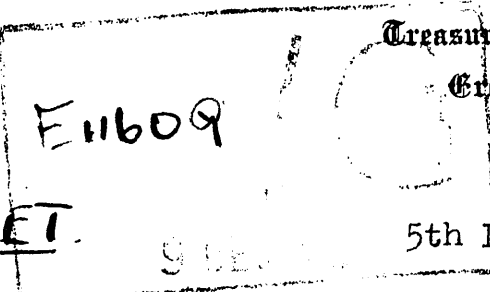
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9 DEC 1947



TOP SECRET



Treasury Chambers,
Great George Street,
S.W.1.

5th December, 1947.

Dear Roger,

I spoke to you over the telephone. I think you ought to know what is in our minds about putting Palestine out of the Sterling Area, blocking their balances, etc.

I feel this is a subject on which the Treasury must put forward their view and it would be difficult to make a single Paper which would reflect fairly the difference of approach between the Treasury and perhaps the Foreign Office or other Departments.

Nevertheless, it would be of great value to me to have a re-action from you to the Paper as it stands. No doubt all this will have to go to Ministers and we ought to lighten their task as much as we can by previous disclosure to one another of our several points of view.

Perhaps you would let me have a word when you have had a chance of looking at this.

Yours sincerely,

Roger Makins, Esq., C.M.G.,
Foreign Office.

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8
Sir Wilfrid Eady

PALESTINE

As you know I was on the point of submitting a Paper about the steps necessary to deal with the Palestine Sterling Balances, membership of the Sterling Area etc. This Paper had been based on the assumption that the evacuation of Palestine by H.M.G. would leave more or less a vacuum with no established Government or Governments for some little time. In those circumstances it appeared right to recommend -

- (a) the removal of the whole of Palestine from the Sterling Area;
- (b) the blocking of Palestine sterling balances subject to such releases as we might unilaterally think fit to make.

The situation is now changed by the possibility that some United Nations organisation will be responsible for the administration of Palestine after we resign the Mandate. There may still be conditions amounting almost to chaos; but it may seem advisable not to ignore completely the United Nations "responsibility" for creating, fairly quickly, stable conditions, including the setting up of one or more administrative organisations with whom we could negotiate.

In these circumstances I am more persuaded than ever that Palestine should be removed from the Sterling Area before we resign the Mandate. The whole essence of the Sterling Area is that we have some measure of control over the outlying parts, except in the case of the Dominions where we look for voluntary co-operation. We should certainly have no control over any form of new administration now contemplated; and we cannot rely on their effective co-operation in a technical matter of this sort, where very close administration is needed.

As regards blocking Palestine sterling balances, once they are out of the area, the question is less easy. If we do not take this step Palestine (unlike, e.g. India, Egypt or Iraq) will be able to spend all her sterling freely in any part of the Sterling Area,

including,

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including, of course, the U.K. (or to move balances, e.g. to South Africa). The result might be that owing to general unrest during the transitional period Palestine would find herself unable to export on anything like the present scale; she would be deprived of the large amounts of sterling now brought in by our troops etc; and as a result might run a considerable deficit with the U.K. which she might seek to make good by drawing down her sterling balances.

These balances have fallen sharply since September 1946, when they were about £120 million. They are now constituted approximately as follows (30th October, 1947) -

	<u>£ millions</u>
Currency Board holdings.....	44.2
Crown Agents Funds.....	10.7
Commercial banking funds.....	45.1
Loan to H.M.C.....	<u>0.8</u>
TOTAL.....	<u>100.8</u>

X The above figures include those for Transjordan which are pretty small.

In all the circumstances it will be represented from the political angle that we ought not to be in a hurry to block these balances. We shall be told that, if there is an administration to which we can talk, we can warn them very forcibly that they must so regulate their import policy that they do not in fact draw seriously upon these balances, and that if they do, we shall have to take prompt and vigorous action to put a stop to it. We may be accused of sabotage if we hasten to block the balances before it is definitely proved that they are being used in a way harmful to us.

The Treasury must have regard first to our own interests. Palestine balances have fallen some £20 million in thirteen months, of which £5½ million was during October 1947. It is very difficult to avoid the conclusion that we shall have to block these balances sooner or later, by agreement or unilaterally. We may lose considerably if we wait until there is some stable administration with whom we can reach an agreement. Moreover, action at a later stage may be interpreted

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as hostile action, whereas if we act early it can fairly be represented as a precautionary measure.

If we were to act before we relinquish the Mandate, it would have to be by a general blocking under Regulation 2A. We should have to release thereafter considerable sums for working balances of the Palestine banks etc., and on this we should need advice from the Bank of England. As regards the Currency Board, I should propose to regard it as still resident in the Sterling Area (it is in fact in London) and allow it by general licence to redeem for sterling notes presented to it by residents in Palestine, but the redemption money would be paid only by credit to a blocked account. It is very important to retain confidence in the currency by continuing to make it convertible in London into sterling, and it is perhaps only a second best to pay the redemption money into blocked account. But I feel strongly that we cannot afford unrequited exports to Palestine and must protect ourselves exactly as we have protected ourselves against Egyptian pounds, for example, being handed in to the National Bank of Egypt to be turned into sterling in London.

My recommendation is therefore to act in advance of laying down the Mandate as regards removal of Palestine from the Sterling Area. As regards the blocking of balances, I believe that we must act in this way sooner or later and the question for decision is whether we shall be accused of sabotaging the new set-up if we act in advance of trouble. My inclination is to say that we shall be accused in either event and had better play for safety by acting early.

4th December, 1947

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SECRET

Drafting of Statute for City of Jerusalem.

Currency Matters.

I. Present Position

The currency of Palestine (which is shared also by Trans-Jordan) consists of notes and coins in multiples and decimal sub-divisions of the Palestine pound, which is equal in value to the pound sterling. This currency is issued by the Palestine Currency Board, which is situated in London, is appointed by the Secretary of State for the Colonies, and operates under regulations made by him. The present members of the Board are Mr. H.F.ownie, Chairman (second Crown Agent for the Colonies), Mr. H.H. Kershaw (an Adviser to the Bank of England), Mr. J.B. Williams and Mr. Trafford Smith (both Colonial Office). The essence of the arrangement under which that Board issues currency is that it is issued on demand against the deposit pound for pound of sterling with the Currency Board in London and is redeemed by them on demand by the payment of sterling pound for pound subject in each case to the charge of a commission at the rate of one-eighth per cent. The actual issues and redemptions of currency are made in Palestine by the Board's currency officer, who is the Attorney General of the Palestine Government. Barclays Bank (L. C. & C.) act as general agents for the Currency Board, e.g. in the custody of stocks of notes. In practice, issues and redemptions are made entirely by the banks, but it is open to the general public to go to the Board, subject to a minimum transaction of £10,000. The sterling received by the Board is invested by them in British Government securities or held on deposit in London. Sterling so held exceeds the total value of the currency in circulation as a result of the accumulation of part of the interest received on such investments.

2. For exchange control purposes, Palestine is within the sterling area. Movement of funds between Palestine and the United Kingdom or any other of the sterling area countries is, therefore, entirely free, but transfers outside the sterling area are subject to substantially the same controls as apply in the United Kingdom. In particular, imports are controlled by a system of licensing aimed at minimizing imports from hard currency areas. In accordance with usual sterling area arrangements, any surplus of dollars earned by Palestine trading operations is surrendered to the Bank of England and goes into the general sterling area pool, while any deficit required to cover Palestine's trade operations is drawn from the pool. It is a natural consequence of this general scheme to trading between Palestine and the United Kingdom that the surplus cash and reserves in the banks which they carry to hold outside Palestine are also held in sterling or exclusively in London.

II. The Future.

(A) General Position.

3. It is understood to be the intention that the City of Jerusalem should form part of an economic union comprising as well the new Jewish and Arab States. While not absolutely essential, it would be natural and very important to the reality of any such economic union that there should be a common currency throughout the three

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areas, and presumably that there should also be a common policy with regard to exchange control. 12

4. Even if it were not already so laid down, it is obvious that the maintenance of a separate currency and exchange policy for Jerusalem alone would be if not impracticable highly inconvenient. It would be a very small area for a separate currency system. It is bound to be to a high degree dependent on close trading relations with the surrounding territory. It is accordingly difficult to see how it could maintain any genuinely independent exchange control policy or prevent the currencies in circulation in Palestine as a whole circulating in practice if not in law within the City.

5. So far as external relations are concerned, however, it is obviously doubtful whether the three future parts of Palestine, whether acting independently or jointly, can preserve the same relationship with the United Kingdom, and in particular whether it will be possible for them to remain within the sterling area or be permitted free access to existing sterling holdings. The answer on this is largely dependent on what can be expected as regards the actual operation of the necessary exchange controls in the new Palestine, but without any commitment, particularly as to immediate policy, it may be assumed as the most probable ultimate arrangement that Palestine as a whole will cease to be a part of the sterling area, and that the utilisation of existing sterling balances will be possible only on the basis of agreements to be reached with the new governmental authorities concerned.

III. The Future.

(B) Currency.

6. Since it can be taken for granted that even if it were desired to introduce a totally new currency, it will not be possible to do so at short notice and for some period at any rate the City of Jerusalem as well as other parts of Palestine will need to go on using the existing currency.

7. If the City of Jerusalem is to form part of an economic union with the other portions of Palestine and it is agreed that a common currency is an essential feature of such a union, it may be sufficient for the statute simply to say that the currency of the City of Jerusalem shall be the currency prescribed for the economic union.

8. On the other hand, it may be that there will be some doubt as to either (a) the effectiveness of the economic union; or, (b) its covering the currency; or, (c) the authority which it is to have. In that event, it may be necessary to make more detailed provision. Again, the simplest provision would be to provide that in any event any proposal to provide in the statute itself for the details of a new currency to be issued by the City of Jerusalem alone should be resisted. This would leave the City in the same relationship to the Currency Board as the state of Trans-Jordan and would not involve any interference in internal financial policy any more than it does in Trans-Jordan.

9. It may be that in any event any proposal to provide in the statute itself for the details of a new currency to be issued by the City of Jerusalem alone should be resisted.

10. Certain questions may arise with regard to the future of the Palestine Currency Board and its funds. If it is contemplated that the existing currency shall continue in use in Palestine as a whole or in the City of Jerusalem alone for any considerable length of time, it may be

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7. If the City of Jerusalem is to form part of an economic union with the other portions of Palestine and it is agreed that a common currency is an essential feature of such a union, it may be sufficient for the Statute simply to say that the currency of the City of Jerusalem shall be the currency prescribed for the economic union.

8. On the other hand, it may be that there will be some doubt as to either (a) the effectiveness of the economic union; or, (b) its covering the currency; or, (c) the authority which it is to have. In that event, it may be necessary to make more detailed provision. Again, the simplest provision would appear to be that the City of Jerusalem shall continue to use existing Palestine currency issued by the Palestine Currency Board until other provision is made by the appropriate legislative authority.

9. It is suggested that in any event any proposal to provide in the Statute itself for the details of a new currency to be issued by the City of Jerusalem alone should be resisted.

10. Certain questions may arise with regard to the future of the Palestine Currency Board and its funds. If it is contemplated that the existing currency shall continue in use in Palestine as a whole or in the City of Jerusalem alone for any considerable length of time, it may be

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necessary to review the situation and source of authority of the Board. This does not, however, seem to be an appropriate matter to be dealt with in the Statute itself as it would certainly concern also His Majesty's Government in the United Kingdom and probably concern the Governments of the other new Palestine States. If, on the other hand, the existing currency is quickly withdrawn from circulation and in fact the Board is wound up, the question may arise as to the disposal of any surplus funds which may remain. It may be proposed that they should be divided between the three new parts of Palestine, but, on the other hand, His Majesty's Government may have a claim against them in respect of residual liabilities of the present Palestine Government. This also appears, therefore, to be quite inappropriate to be dealt with in the Statute for the City of Jerusalem. Any proposal to divide up the funds of the Currency Board in anticipation of the withdrawal of the currency in circulation should, of course, be absolutely resisted.

11. Whether or not the City of Jerusalem or the new Palestine as a whole remains within the sterling area, it is almost certain that it will need (a) to operate a system of exchange control in its own interests, including import licensing; and (b) will need to come to some arrangement with His Majesty's Government about the use of existing sterling balances. The details of such matters are, however, obviously inappropriate for the Statute and it should be sufficient to ensure that the powers given to the new governing authority by the Statute are sufficient to enable it to enact and operate the necessary controls and to enter into any appropriate agreements with the United Kingdom or any other Government concerned. Apart from the obvious inappropriateness of dealing in the Statute with such detailed regulations, it would obviously be the policy of His Majesty's Government to resist any attempt in it to lay down how we ourselves should behave with regard to the existing sterling holdings.

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1947

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E 11774

12 DEC

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PALESTINE

Palastine Jewish State, Stealing Area

Registry Number E11774/11609/31
FROM Sir P. C. ...
No. 10
Dated ...
Received in Registry 12 Dec

Handwritten copy of letter to Mr. ...
of Dec 10, enclosing note of conversation with
Hooper and ... of the ...
a future ... in relation to the stealing
area of the Jewish State,
make ...

Last Paper

11609

References

(Print)

(How disposed of)

(Minutes.)

This whole question is under active consideration between depts. and recommendations are being made very shortly to Ministers. I don't think we have any comments at this stage, other than those already expressed in drafting the above recommendations.

E.R. Dept ✓

JB Jan 7

Page. ...

(Action completed)

Handwritten signature

(Index)

Handwritten signature and date 15/9/48

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With Sir S. Caine's compliments,

10th December, 1947.

1049/3W/47.

My dear Ernest,

I attach a copy of a note of a further conversation I have had with Hoofien and Istorik of the Anglo-Palestine. As this makes clear, they appear very anxious to have further discussions about the future position in relation to the sterling area of the Jewish State, but we felt able to do no more than draw attention to the delicacy of our position in entering into such discussions at the moment and to promise that we would consult the other interested departments.

I might perhaps add by way of further elucidation of the note that in discussing the future relationship to the sterling area, both Hoofien and I were careful not to talk in terms of a simple choice between membership and exclusion. Hoofien himself referred to the somewhat different positions enjoyed by individual members of the sterling area group, and we talked therefore in general terms which would cover various different grades of membership. I have no doubt that Hoofien and his associates are at present anxious to remain within the area and might be prepared to go a long way in submitting to conditions in order to retain the form of membership.

Gutch mentioned this conversation to Norman Young after Monday's meeting of the Overseas Negotiation Committee Sub-Committee, and you may, therefore, already have given some thought to Hoofien's request. Anyway, could you let us know as early as convenient what answer we should give him?

I am sending a copy of this to Burrows at the Foreign Office, who will no doubt let us have the Foreign Office view.

Yours sincerely,

E. ONE-DUTTON, Esq., C.B., C.F.G.

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NOTE OF CONVERSATION WITH MR. HOOFIEN AND
MR. ISTORIK OF THE ANGLO-PALESTINE BANK
ON THE 8TH DECEMBER.

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Mr. Hoofien prefaced his remarks with a dissertation emphasizing that now that the future of Palestine had been decided by the United Nations there was no reason why any resentment which might have existed between Great Britain and the Jews of Palestine should not disappear. There had already been practical indications that it would do so. Turning to the situation with which we are now faced in Palestine, he assumed that during the interim period prior to the assumption of authority by the U.N. Commission things would carry on much as before and there was therefore no call for discussion. Subsequently the Commission would take over and would then pass on authority to the successor states and the Economic Board. There would thus be a more or less orderly transfer of authority. He imagined that there could be no question of establishing a special currency during the interim period, and that the date of the termination of the Mandate would not be in the immediate future. May had been mentioned, but he was not sure whether this was an official announcement.

Mr. Gutch confirmed that the date had not yet been officially announced, but immediate termination was not now likely and, so far as we were concerned, we hoped that an orderly transfer on the lines indicated by Mr. Hoofien would be possible.

Mr. Hoofien said that the question then arose of what was to happen after the hand-over. The Palestine Currency Board could be maintained or it could be abolished or modified in constitution. As regards their future relationship with sterling

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the Jews could not afford to wait on others. The relationship was an important one to them and they could not consider "walking out" on sterling. Their economic support would come largely in the form of dollars: the Arabs, too, would come in for considerable dollar support, if they were reasonable about things. Palestine would therefore not come as a beggar to the negotiations for the agreement which would be necessary to settle her relationship with sterling. They realized that some sensible arrangement would be necessary in regard to the sterling balances which they held.

Sir B. Caine agreed that it would be necessary to reach an agreement in regard to the future relationship of Palestine with sterling, but this had become a matter rather for the Treasury in consultation with the bank of England and the Foreign Office than for the Colonial Office. As regards the Currency Board, there would have to be currency arrangements in the interim period and the Currency Board would therefore presumably carry on, **if it carried on for any long period** though/its constitution would probably have to be modified somewhat to meet the changed circumstances. The continued operation of the Currency Board would however immediately raise the question of its sterling transactions which would have to be coordinated with the general arrangements to be made in regard to Palestine's relationship with the sterling area. The latter question would be primarily one for the Treasury. There was also the U.K. Commission which must be taken into account since it was with the Commission that negotiations on these and other matters would have to be conducted. The position was in fact extremely delicate and we could not very well conduct anything

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in the nature of discussions, behind the Commission's back, with those who after all represented only one of the Palestine parties concerned.

Mr. Hooffien said that he fully appreciated this, but the fact remained that they were most intimately concerned in this particular question and had a contribution to make on it. All that he was suggesting was purely exploratory talks and he was anxious for assistance in contacting the particular people with whom such talks could usefully take place at this stage.

Sir G. Caine replied that this was a delicate matter, and, as he had pointed out, the Colonial Office were not now primarily concerned in it. He would, however, consider Mr. Hooffien's suggestion and let him know whether anything was possible in that direction. He suggested tentatively that discussions with all the major Banks operating in Palestine might provide a means of giving a suitable cover for what Mr. Hooffien had in mind.

Mr. Hooffien said that he thought that the inclusion of the other Banks would tend to complicate the issue. Their approach had been made not as Bankers, but rather as the Jewish Agency's advisers on currency questions. He would possibly be going to the United States in about a week's time, but was not yet sure of his movements. He would let us know when they were more definite.

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12047

1947

WINDSOR

19 DEC

19

Registry Number F12047/11609/31

FROM Cab. Officers.

No. B. P (O.N.) 147/152

Dated 16 Dec.

Received in Registry 19 Dec.

Economic & Financial Questions on Palestine

Report by the Working Party on Palestine on financial & economic questions arising from the withdrawal from Palestine.

Last Paper.

F11919

References.

(Print.)

(How disposed of.)

(Minutes.)

Please see the attached letter from Mr. Playfair to Mr. Trevelyan.

We now require a statement of the Foreign Office view on the point raised in paragraph 2 of Mr. Playfair's letter. I do not think that Eastern Department are very greatly concerned with this issue. We shall have, of course, to maintain friendly relations with any Jewish State that is set up but I doubt whether a technical matter of this kind will greatly affect such relations. It should be possible to reach an agreement by negotiations, if necessary.

The immediate problem is whether our proposed action in this matter runs counter to our obligations to I.A.R.A. or could be represented as a failure to give the Jewish State a fair share. If so, we might be involved in a controversy with the United Nations Commission for Palestine. I suppose it may be held that Jewish propaganda in America would make use of this handle.

~~I have consulted the German General Economic Department who say that they think this is more a matter for Refugee Department.~~ Eastern Department will in any case be grateful for comments on the reply to be returned to the Treasury,

J.G.S. Beith

J.G.S. Beith.
20th December, 1947.

from

Refugee Department, ^{no comment under 22.12.}
Economic Relations Department
German General Economic Department (Mr. Johnston)

(Action completed.)

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(Index.)

15/12/47

Next Paper.

1204

The Treasury is of the opinion, probably correctly, that there is political dynamite in this issue. We were asked to let Treasury have all views before Christmas; but the

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Papers only reached me yesterday ^{evening} & have not yet been
to German General Economic Dept. who are most
concerned. I suggest that the papers should be
forwarded immediately to them & that we should ~~not~~
have a meeting with Mr. Playfair & if possible
Sir Desmond Morton, which we can fix now, &
decide on our line.

H. F. Taylor -
30/12/47.

Mr. Mayhew has asked to see these papers.

Yes. I understand that Eastern
had assumed responsibility for
dealing with this matter - there is
now no time to be lost in arranging
a meeting.

RMS
30/12

It is possible that the I.A.R.A. Powers may
take exception to our refusing to account for assets
in Palestine which we are unable to retain under
our jurisdiction. The accounting rules recently
accepted by the I.A.R.A. Assembly may have some
bearing on this point. Sir Desmond Morton, the
British delegate on I.A.R.A., is best able to advise on this.

2. A feature of the Palestinian case against
our proposed action may well be the different treatment
accorded to the sovereign states of the Near East. From
preliminary steps taken towards liquidating
German assets in the Near East, we have the
impression that little will be left for I.A.R.A. to claim,
as the amounts involved are very small and will be
swallowed up by claims against Germany. As the
amount of German assets in Palestine is more
substantial we may be able to show that the formula
in para. 38(b) of the Report gives Palestine a better
deal than the other N. East states.

3. I understand the meeting with the
Treasury is already being arranged. We must

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necessarily rely on them to advise on the I.A.R.A. context - the problem.

R. M. Nail
31. Dec. 1947.

I must disclaim on behalf of
Gen. Economic Dept. the main
interest in this question. The political
dynamic, which is thought to lie in
this matter presumably concerns our
relations with the new state of
Palestine and with international Jewish
relations which I am glad to say are
no concern of ours. The function of
this Department in the question of German
external assets is really to relate
it to the reparations question as
a whole, and to keep an eye on the
way in which Sir Desmond Morton (under
Treasury instructions) handles I.A.R.A.

The point raised by Miss Maxwell
in her second paragraph is one which
neither E.W.D. may have something to
say, to whom therefore I am making
these notes.

D.C. Johnston
31.12.47.

Economic Warfare Dept.

E.W.D. rather doubt whether much play can be
made

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made out of Mrs. Marel's argument about
Palestine getting a better deal than her neighbours.
In point of fact, the latter will give up
nothing of IARA. Palestine will!

J.M. 5/1/

I think the Tr. view is correct, that
we should come in for damaging
criticism in the U.S.A. were we to
let ourselves become vulnerable on
this issue. But it is, of course, only
one of the factors involved, and may
on balance be worth going ahead.

Chad [unclear]
6/

A line was agreed upon at a
meeting in Sir D. Mott's room at
the Tr. on Jan 7. Mr Abbott
of the Tr. was to send a paper
to Mr Trevelyan of E.R. Dept. for
final concurrence.

JD Jan 10

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16TH DECEMBER, 1947.

COPY NO. 25

CABINET

OVERSEAS NEGOTIATIONS COMMITTEE

REPORT BY THE WORKING PARTY ON PALESTINE

Note by the Secretary

I circulate herewith for consideration by the Committee on Wednesday, 17th December, the Report by the Working Party on Financial and Economic Questions arising from the withdrawal of British Authority from Palestine.

(Signed) G.M. WILSON.

Cabinet Office, S.W.1.,

16TH DECEMBER, 1947.

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FINANCIAL AND ECONOMIC QUESTIONS ARISING FROM THE WITHDRAWAL OF BRITISH AUTHORITY FROM PALESTINE

Introductory

1. The Overseas Negotiations Committee were asked to prepare, for consideration by Ministers, a comprehensive paper on financial and economic questions arising out of the withdrawal of British authority from Palestine. (C.M.(47) 93rd Conclusions, Minute 1).

2. This report has been prepared on the basis that as far as practicable it should be assumed that the United Nations plan will be put into effect. In fact, however as far as can be foreseen, the Palestine Arabs supported by the Arab States will boycott the United Nations Commission and refuse to co-operate in the establishment of an economic union of Palestine administered by a joint economic board. Unless the Commission is furnished with a force by the United Nations for the maintenance of order it seems likely that guerilla warfare and confusion will reign in the areas evacuated by British troops. The confusion may well be increased by the migration of Jews and Arabs from areas where they are in a minority. The Jews will probably have to defend themselves within an enclave limited by military requirements: the remaining part of Palestine will be in Arab hands but is unlikely to be constituted as an Arab State since this would represent acquiescence in the partition plan. Where therefore any breakdown of the United Nations Plan would vitally affect our financial and economic interest in Palestine the relevant portion of the report will point this out and the recommendations will take account of it.

3. Very broadly the United Nations Plan provides: (a) that the mandatory powers shall hand the administration of Palestine over to a Commission appointed by the United Nations which shall establish Arab and Jewish States and an international state in the City of Jerusalem: (b) that these States shall be united in an economic union of Palestine among whose principal objectives will be a Customs Union and a Joint Currency system providing for a single foreign exchange rate; (c) that there shall be established a Joint Economic Board, whose functions will be to implement either directly or by delegation the measures necessary to realise the objectives of the Economic Union. Until the Joint Economic Board is functioning (if indeed it ever does) the United Nations Commission will have full responsibility for financial and economic administration.

GENERAL FINANCIAL QUESTIONS

Membership of Sterling Area

4. Palestine

It has to be decided whether Palestine should leave the Sterling Area on or before the termination of the Mandate.

The basis of the sterling area system is that each member is responsible for exchange control (including import policy) in its own territory. Decisions of the local control are automatically endorsed in London and it would be quite impracticable for us to attempt to vet any large number of individual transactions, or to enforce unilaterally any limit on a member country's hard currency expenditure.

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In the case of the Colonies we can and do issue instructions on exchange control policy and practice. With the Dominions we have to rely on voluntary co-operation and a willingness to receive guidance from London on major questions. With Iraq we have a more formal agreement, limiting their foreign currency expenditure. If a member does not come up to scratch and persistently ignores the precepts of London, the only remedy is to put it out of the sterling area.

The United Nations Commission knows nothing of exchange control administration on sterling area lines, and is most unlikely to see eye to eye with us on policy; even if it did, its administrative machinery will be inadequate. We could not, therefore, rely upon it to co-operate with us effectively at a time when, in view of our critical dollar position strict and parallel administration of exchange control in all parts of the sterling area is vital for the area's survival.

The Treasury therefore propose to seek Ministerial authority to arrange for Palestine to leave the sterling area before we resign the Mandate and the Committee see no objection to this proposal. The exact date at which this change should take place must be discussed with the present administration.

5. Transjordan

Transjordan has until now continued to use Palestine currency. If Palestine left the sterling area it would be virtually impossible for Transjordan to remain a member while she was using the same currency. If therefore she is to remain in the sterling area (and for political reasons it is desirable that she should), when Palestine leaves it, she will have to have different currency arrangements. It is understood that the Transjordan authorities are already considering the idea of approaching the Iraqi Government with a view to using Iraqi dinars instead of Palestine pounds. This could be done within a short time, and would be the most sensible arrangement, since the circulation in Transjordan is so small (about £P 1 million) that a separate currency would be an extravagance. Transjordan has at present no separate import licensing system and a very sketchy exchange control. If Transjordan were to remain in the sterling area in this way it would be necessary to arrange with the Transjordan Authorities for the introduction of import licensing and the tightening of exchange control.

6. Sterling Balances

The mere departure of Palestine from the sterling area would not restrict her freedom to spend all her sterling in any part of the sterling area or to move her balances about within the area, e.g. to South Africa. The whole of the balances would still be available to attract unrequited exports from the United Kingdom.

7. At 30th October, 1947, the sterling balances of Palestine and Transjordan (the latter being only a small proportion of the total) were constituted approximately as follows:-

	<u>£ millions</u>
Currency Board holdings	44.2
Crown Agents Funds	10.7
Commercial Banking funds	45.1
Loan to His Majesty's Government	0.8

Total	100.8

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8. At 30th September, 1946 the total was about \$120 million, so that there has been a reduction of \$20 million over 13 months of which \$5½ million was during October, 1947. We are not yet in a position to tell how much of the decrease during the last few weeks is due to payment for imports and how much, if any, to switch of capital to other parts of the sterling area in anticipation of possible blocking.

9. During the transitional period the balances (if left free) must be expected to fall even more sharply, since general unrest in the country might reduce exports from Palestine and her considerable sterling receipts from British military expenditure would have come to an end.

10. In our own interest, therefore, Palestine's sterling should be blocked at an early date for the same reason that the balances of India, Egypt and Iraq were blocked. If this were not done it would be to the detriment of Palestine as well as of the United Kingdom because it would dissipate resources which the successor Governments would require for more essential long-term purposes. There is admittedly the political objection that, if we do this at once without giving the interim administration time to show whether it can carry out an import policy that would not result in a serious drawing down of the balances, we may be accused of sabotage. The figures for the last few weeks should enable us to demonstrate that it is necessary for us to take early action purely as a safeguard for ourselves and that no political discrimination is intended.

11. The Treasury therefore propose to submit a case for freezing Palestinian balances subject to sufficient releases to enable trade to continue, and the Committee see no objection to this proposal.

Currency Board

12. There can be no question of a change in the currency until the Joint Economic Board is functioning. Confidence in the present currency should be retained by continuing to make it convertible into sterling even though (if we freeze balances) we should have to insist that redemption money should be paid to blocked accounts (otherwise this would be a loophole in our blocking arrangements).

13. We should in that case propose to regard the Currency Board as still resident in the sterling area (it is in fact in London) and allow it by general licence to redeem for blocked sterling notes presented to it in London by residents in Palestine.

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14. The Treasury are seeking Ministerial authority for these proposals.

Recommendations

15. It seems certain that decisions on these general financial questions will be taken and implemented immediately and before negotiations with the United Nations Commission are begun. This will avoid any possibility of embarrassment through the Commission suggesting a different course from that decided on by the United Kingdom Government. It is recommended that, when the Commission is established and discussions on financial and economic questions begin Sir A. Cadogan should:-

(a) inform the Commission of the decisions as to membership of the Sterling Area, blocking of sterling balances and the Currency Board which have been taken and the reasons for them;

(b) suggest that the Currency Board should continue to operate until the Joint Economic Board had been established, since under paragraph D8 of the Report of the ad hoc United Nations Committee on the Palestinian Question this Board shall be the sole issuing authority;

(c) if the Commission raises the question of the disposal of the assets of the Currency Board say that insofar as there should prove to be any surplus assets these will be treated in the same way as any other assets of the Palestine Government (see para.31 below);

(d) if the Commission ask for representation on the Currency Board, say that the United Kingdom Government would be prepared to consider this request.

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ASSETS AND LIABILITIES

Fixed Assets in Palestine of His Majesty's Government

16. Details of the value of the fixed assets constructed by the Service Departments in Palestine have been requested from the Middle East but this information has not yet been received. It is believed that the bulk of the assets are sited on requisitioned, hired and expropriated land. Many of these assets are of military value only but others would have considerable civilian-use value. The Service Departments are endeavouring to sell the assets which have been constructed on freehold land, but sales of assets of major political significance will only be made with the concurrence of the Palestine Government.

17. In the absence of the report referred to, only very tentative estimates of the value of the assets can be made, but the salvage value of assets constructed on hired, requisitioned or expropriated land is believed to be of the order of £2 million and the value to a willing purchaser would probably be substantially higher.

18. It is the view of the Palestine Government that if titles remain in their present form, i.e., vested in the High Commissioner, there might be a difficulty in asserting the rights of the Service Departments of His Majesty's Government in this land after the termination of the Mandate when the office of the High Commissioner will presumably cease to exist. This land was vested originally in the High Commissioner on behalf of the Service Departments concerned, presumably to avoid any question arising of challenge under Article 5 of the Mandate, but it seems clear that the provisions of this article were not intended to preclude ordinary acquisition of private rights to land, cf. leases granted to foreign consulates and the British Army in Palestine.

19. It is the conclusion of the High Commissioner that the safest and most effective means of protecting the interests of His Majesty's Government in this land is to vest it directly in the Service Department concerned, either by a special ordinance or otherwise, and he has so informed the Military Authorities concerned in Palestine. It is their policy to endeavour to sell off all immovable assets with the least possible delay but, both because this may mean considerable loss and because in the time and with the staff available it may not prove possible to dispose of all property, some such method of protecting His Majesty's Government's interests appears necessary.

Movable Assets.

20. The only known movable assets of His Majesty's Government remaining in Palestine after the termination of the Mandate will be military stores. A detailed note on these is given in Appendix 'B'.

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Liabilities of the Palestine Government.

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21. The appointment of a United Nations Commission as an administering authority for the whole of Palestine to take over the administration of the country following the termination of the Mandate involves the question of the negotiations to be carried out for the surrender of the assets of the Palestine Government and the terms upon which such a surrender should be made. In such negotiations it is essential that clear distinction is drawn between the assets of the Palestine Government and the assets of His Majesty's Government.

22. The Commission will, no doubt, be guided by the financial clauses of the Plan of Partition with Economic Union and these present some difficulties as to the definition of the obligations of the Palestine Government, the means which would be available to honour the obligations taken over by the Commission and the handling and distribution of Governmental movable and immovable assets.

23. The assets of the Palestine Government might be summarised as follows:-

- (i) General revenue balances;
- (ii) Funds for specific purposes;
- (iii) Funds in respect of Public Debt;
- (iv) Government lands, buildings and stores;
- (v) Internal loans;
- (vi) Trust funds;
- (vii) Palestine 3% Defence Bonds and Palestine Savings Certificates.

24. The liabilities of the Palestine Government might be summarised as follows:-

- (i) Budgetary expenditure until termination of the Mandate;
- (ii) Public Debt;
- (iii) Specific obligations in respect of the right of public servants including pensions, compensations or gratuities;
- (iv) Specific obligations under Palestine Ordinances;
- (v) Contingent liabilities.

25. These assets and liabilities are individually dealt with in Appendix B, except for the special problems arising on the Public Debt of Palestine and on Pension obligations, which are explained in the following paragraphs.

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26. The Public Debt of Palestine consists of:-

- (i) £P.3,600,000 - 3% Guaranteed Loan 1962-67;
- (ii) War Loan (Bearer Bonds) 1st, 2nd, 3rd and 4th issues, totalling £5,791,960.

The 3% Guaranteed Loan, less stock redemptions, at 31st March, 1947 stood at £P.3,150,000. This stock is guaranteed as to principal and interest by the Treasury under an Act of Parliament of the United Kingdom of Great Britain and Northern Ireland entitled "The Finance Act 1939" (24 and 25 George V, cap. 32).

27. The operation of the Joint Economic Board to be set up under the Partition Plan makes provision for the service of the outstanding public debt of the Palestine Government. An agreement with the United Nations Commission safeguarding the servicing of the 3% Guaranteed stock and War Loans (Bearer Bonds) should be a major objective of our financial negotiations.

28. Pension Obligations:

Palestine Government has pension obligations under Palestine Ordinances as well as obligations in connection with the Palestine Provident Fund, Widows' and Orphans' Pensions Fund. In addition the Palestine Government have not yet finalised their views as to the payment of compensation and gratuities to public servants and to the police on termination of the Mandate. Preliminary views of the Government of Palestine have indicated that their proposals may involve a sum of £P.18 million on the basis of "funding" pensions. However, it may be possible to arrive at some more economical method of meeting the charge. The position of expatriate officers of the Palestine Civil Service will need careful consideration. In the main it is hoped that the majority will be found other employment in the Colonial Service but there may be a small residue who cannot be so placed for some while after the termination of the Mandate.

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29. Qualifications on Acceptance of Financial Obligation.

3(a) of Chapter 3 of the Report of the United Nations Ad Hoc Committee on the Palestinian Question, imposes a qualification as to the financial obligations which the State shall respect and fulfil. While saying that all financial obligations of whatever nature assumed on behalf of Palestine by the Mandatory Power during the exercise of the Mandate shall be respected and fulfilled there is the important overriding condition that such obligations would be those recognised by the State. The United Kingdom delegation has reserved His Majesty's Government's position regarding any clauses in the Plan, and we must resist this qualifying condition to the extent of making the unqualified acceptance of the obligations of the Palestine Government a condition for the surrender of its assets.

30. Means of meeting obligation

Then there is the question of the means which the Commission will employ them to meet certain charges arising out of the obligations taken over. As to the servicing of the public debt and the cost of superannuation benefits now being paid or falling due in future, the Partition Plan envisages these charges as being met from the common revenue of the Joint Economic Board. This presupposes that this Board will be set up and function satisfactorily; but this would appear to be a doubtful proposition in present circumstances. Should there be difficulties in setting up (a) the respective States, which seems probable in the case of the Arab State, and (b) the Economic Union, the Commission may not be in a position to implement its agreement to discharge the liabilities taken over unless there are safeguards against such a contingency.

Recommendations

31. It is recommended that in his negotiations with the United Nations Commission Sir Alexander Cadogan should ensure that:-

- (a) a clear distinction is drawn between Palestine Government assets and assets of His Majesty's Government,

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- (b) That the vesting of land directly in the Service Departments is duly acknowledged as full and clear title of His Majesty's Government departments with freedom to dispose of such assets as they may seem desirable should they not be disposed of before the termination of the Mandate.

It is further recommended that Sir Alexander Cadogan should be asked -

- (c) To discuss with the Commission plans for the safe custody of such stores left behind by the military, and for their movement to the Haifa enclave for subsequent evacuation, possibly an appreciable time after 1st August.

It is further recommended that Sir Alexander Cadogan should be asked to establish the following principles:-

- (d) That the surrender of Palestine Government assets is conditioned on the unqualified acceptance of the liabilities incurred by the Palestine Government (there is every indication that the liabilities will exceed the liquid assets).
- (e) That notwithstanding clause 2 of Section E of Chapter 4 of the UNSCOP Report (see footnote), as long as the mandatory period lasts, Palestine Government must be free to control the finances of Palestine as she deems necessary in the interest of Palestine as a whole, and
- (f) That adequate arrangements are made to indemnify His Majesty's Government in respect of their guarantee of Palestine 3% guaranteed stock, and for payment of superannuation benefits.

Footnote: During the period between the appointment of the United Nations Commission and the termination of the Mandate, the Mandatory Power shall, except in respect of ordinary operations, consult with the Commission on any measure which it may contemplate involving the liquidation, disposal or encumbering of the assets of the Palestine Government, such as the accumulated Treasury surplus, the proceeds of Government bond issues, State lands or any other asset.

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GERMAN EXTERNAL ASSETS IN PALESTINE

32. The General Background. By the decision of the Berlin Conference of July/August, 1945, it was decided that, "the reparation claims of the United States, the United Kingdom and other countries to reparations shall be met and from appropriate German external assets". By the provisions of Article 6 of Part I of the Final Act of the Paris Conference on Reparation, "each signatory Government shall, under such procedures as it may choose, hold or dispose of German assets within its jurisdiction in manners designed to preclude their return to German ownership or control and shall charge against its German reparation share such assets". Article 2 of Part IV of the Final Act states that "the signature of each contracting Government shall be deemed to mean that the effect of the present Agreement extends to territories under its protection or suzerainty or over which it at present exercises a mandate". Under Article III of the Final Act of the Paris Conference on Reparation, the Inter-Allied Reparation Agency must charge the reparation account of each Signatory Government for the German assets within that Government's jurisdiction, and each Signatory Government is required to render a return of the value of such assets as defined under Article 6 of Part I of the Agreement. His Majesty's Government signed the Paris Agreement on the 21st December, 1945, when it exercised a mandate over Palestine.

33. The position of His Majesty's Government in regard to these German assets in Palestine is thus:-

- (i) His Majesty's Government is responsible to see that all German enemy assets in Palestine are so dealt with as to preclude their return to German ownership or control;
- (ii) That the value of these assets is included in the United Kingdom returns to the Inter-Allied Reparation Agency of German assets under United Kingdom jurisdiction.
- (iii) The United Kingdom's share of reparations as allocated under the Paris Act, is charged with the value of the German assets in Palestine.
- (iv) The Assembly of the Inter-Allied Reparation Agency would, we are advised, still regard the United Kingdom as the Government responsible for accounting for German assets in Palestine whether or not the mandate over that territory had been relinquished.

34. German External Assets under the Control of the Custodian of Enemy Property for Palestine

These assets total some \$8.8 million, and there are further assets to the value of perhaps twice this figure belonging to Germans interned in Palestine and in Australia. These latter assets are liable to be released to the owners under the Final Act unless such owners are held to be "enemy". After adjustments made under the I.A.R.A. accounting rules for external assets, the final sum likely to be charged against the United Kingdom reparation share in respect of German enemy assets in Palestine is \$4 million.

35. Steps taken by His Majesty's Government to secure control and transfer of German enemy assets in Palestine

The High Commissioner for Palestine has been asked to instruct the Custodian of Enemy Property for Palestine not to vest further any German property which may have to be released (e.g., internees' property). He has also been asked to consider measures whereby as much of the immoveable property

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as possible can be liquidated. The High Commissioner has also been asked to advise on the possibility of transfer to the United Kingdom of all liquid assets now available and which become available as the proceeds of sale of assets.

36. Possible Financial Effects .

In the first estimate of German assets within the United Kingdom jurisdiction which has been made to the Inter-Allied Reparation Agency, the sum of approximately £2 million has been included on account of these assets. The provisions of the Paris Act enable us to adjust this estimate later according to the facts. The fact that we are obliged to account for assets, the value of which we know for certainty, e.g. because they have been liquidated, but are unable in fact to secure the transfer to the United Kingdom Exchequer, would mean that our participation in other assets under Category A of Part I of the Final Act, would be reduced. One effect of this might be to reduce our share of Swiss francs derived from the disposal of German assets in Switzerland. This reduction would not be the equivalent of the value of German Assets in Palestine which we had included in the I.A.R.A. return, but would definitely reduce our share to an extent which at the moment cannot be forecast.

37. Jewish Claims for reparation payments

The Jewish Agency have hitherto claimed that, as compensation for the sufferings of Jewry under the Nazis, Palestinian Jews should receive compensation out of reparation payments over and above that already provided for in the Final Act. Jewish propaganda will no doubt claim that the whole of German assets in Palestine should be earmarked for this purpose. The Jewish Agency has already been informed that contributions from reparations for the rehabilitation of non-repatriable victims of German action are governed by the Final Act of Paris. Any contribution to Palestine over and above the agreed Palestine share (on Future Action (II)) can only be made at the expense of His Majesty's Government, whose responsibility it is to account for all these assets, the non-receipt of which would adversely affect the reparations receipts of the United Kingdom Exchequer.

Recommendations

- 38. It is recommended that Sir A. Cadogan should be asked to take the line:-
 - (a) That the maximum amount of German immovable property should be liquidated before the mandate is relinquished, and the possibility of securing the transfer of the liquid proceeds of assets to the United Kingdom explored;
 - (b) That a provision should be inserted if possible in any instrument handing over the control in Palestine to which we were a party, whereby an undertaking would be given to His Majesty's Government by those responsible that German enemy assets in Palestine would be controlled and disposed of in accordance with the provisions of the Final Act of Paris, and that the proceeds of their sale or their value would be made available to the United Kingdom, with the obligation to pay Palestine her share, (which would be small) calculated in accordance with a formula adopted in the case of Colonial dependencies, of the total United Kingdom German reparation receipts when a decision has been reached; and that Sir A. Cadogan should be asked to negotiate with the Commission to secure such a provision.

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(c) That in so far as we were unable to succeed in (a) and (b) in the foregoing, the return of the value of these assets to the Inter-Allied Reparations Agency should be written down on the grounds that this had been brought about by reason of the non-accessibility of the assets to the United Kingdom.

(d) That any Jewish claim for the German assets in Palestine to be earmarked as compensation for the sufferings of Jewry under the Nazis should be resisted.

Palestine's Membership of International Economic and Financial Bodies

39. The Official Committee on Palestine are reviewing and making recommendations on all international obligations (including e.g., membership of international, economic and financial bodies) assumed by the United Kingdom on Palestine's behalf.

Safeguards for Commercial Interests

40. We need to safeguard our commercial position in Palestine in the interim period between the laying down of the Mandate and the negotiation of long term agreements with the successor states. Our object should be to negotiate an arrangement with the Commission which will safeguard our position, not only while the Commission is actually administering the territory, but for an interval thereafter sufficient to give us time to negotiate commercial treaties with the successor states. It follows that we shall have to try to persuade the Commission to place some restraints on the economic freedom of the new states for their first year or two of their existence.

Treatment of Goods

41. Palestine is at present an adherent to the Geneva Agreement on Tariffs and Trade which was signed by His Majesty's Government in the United Kingdom on behalf of the Colonies, etc., as well as the United Kingdom itself. It is for consideration (see paragraph 39) whether or not Palestine will remain a party to the Geneva Agreement on Tariffs and Trade after the Mandate is laid down. Be that as it may, we should endeavour to secure an undertaking from the Commission that they will continue to apply the Geneva Agreement on Tariffs and Trade rules, absolutely in relation to other parties to the Geneva Agreement on Tariffs and Trade and conditionally in relation to all other countries, i.e., to the extent that those countries in practice do not "discriminate" against the commerce of Palestine. The Commission should also be asked to ensure that in handing over to the successor states, if and when established, a similar undertaking valid for a period of at least two years should be obtained from them.

42. We can support our request by reference to the fact that, under the terms of the Mandate, Palestine was bound to grant equality of treatment to the goods, nationals, etc., of all members of the League of Nations (and by a separate agreement to the U.S.A.) and that this had to be given even if one of the countries concerned discriminated against Palestine. The line our representative should therefore take with the Commission is that Palestine has always followed a policy of

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non-discrimination in commercial matters and it is hoped that that policy will be continued under the Commission's regime, and further, that for the first two years of their existence the successor states shall be under an obligation to grant m.f.n. treatment to all members of the United Nations that accord the same to them.

The above general rule of non-discrimination would not be applied in such a way as to prevent Palestine making special customs agreements with neighbouring territories e.f. the existing preferential tariff arrangements with Syria and Lebanon.

Treatment of Nationals, Companies, Shipping and Civil Aviation

43. When the Mandate is terminated we shall have no treaty rights in Palestine for our nationals, their businesses or our shipping and civil aviation. In the long term these can only satisfactorily be safeguarded by the negotiation of a treaty of establishment and navigation with the successor states. It will not be practicable to negotiate detailed provisions with the UNO Commission, and to cover the position in the interim period we shall have to rely on a modus vivendi expressed in fairly general terms.

Recommendations

44. It is recommended that Sir A. Cadogan should be asked :-

(a) on the treatment of goods, to secure an undertaking as proposed in paragraph 41 -

(b) on the treatment of nationals, companies and shipping to secure an undertaking from the Commission that, while they are responsible for administering the territory, they will grant to United Nations nationals, including juridical persons, national and most favoured nation treatment in all matters pertaining to commerce, industry, shipping, civil aviation and other forms of business activity within Palestine, subject to the reciprocal grant of similar treatment in like matters by the United Nation concerned to Palestinian nationals. This undertaking would be understood to be subject to any exceptions customarily included in commercial treaties.

Similarly the provisions with respect to reciprocity granted by each of the United Nations would be understood to be subject to the exceptions customarily included in the commercial treaties concluded by that State. The Commission should also be asked to ensure that, in handing over to the successor states, if and when established, a similar undertaking valid for a period of at least two years is obtained from them.

EXPORTS FROM PALESTINE WHICH ARE ESSENTIAL TO THE UNITED KINGDOM

45. The main exports from Palestine of interest to the United Kingdom are:-

- (a) Potash;
- (b) Foodstuffs, mainly citrus fruit and fruit products;
- (c) Petroleum products.

Separate notes on these are in the Appendix C. A special factor in the case of oil products is that it is a United Kingdom interest for these products to be freely exported to meet the needs of other parts of the sterling area and to earn foreign exchange.

Recommendations

46. It is recommended that Sir A. Cadogan be asked to request the United Nations Commission, to facilitate (a) the exports of citrus and potash to the United Kingdom; (b) the free export of petroleum products by the British oil companies to such destinations as they choose. -13-

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PROCUREMENT OF FOODSTUFFS AND FERTILISERS

Foodstuffs

47. The Ministry of Food has hitherto dealt with the programming, sponsoring and procurement of food supplies for Palestine.

48. Requirements of bread grains and rice for part of 1948 have already been considered by the I.E.F.C. The Food Mission in Washington have been asked within the last week to submit to the I.E.F.C. requirements of oils and fats for Palestine, as part of general Middle East requirements.

49. Certain quantities of the allocated foods for 1948 have been or are in course of being procured. Some small balances of Palestinian 1947 requirements yet remain to be shipped.

50. Fertilisers

The United Kingdom sponsors the requirements of the Colonies and Mandated territories with the International Emergency Food Council in Washington. The only fertiliser now under international allocation by that body is nitrogen and the allocation of this fertiliser to Palestine for the fertiliser season ending 30th June, 1948, is 2,667 metric tons of N. Of this total, the United Kingdom is to supply 1,267 tons, Belgium 1,100 tons and Norway 300 tons. United Kingdom deliveries are made through I.C.I. (Levant), but procurement of supplies within the Belgian and Norwegian allocations is made by the Palestine Government, with such guidance as may be required from His Majesty's Government. It has been the practice in the past for the Palestine Government to use the I.C.I. (Levant) for procuring all supplies of nitrogen, but recently Norway has appeared to be unwilling to continue this arrangement.

Recommendations

51. It is recommended that Sir A. Cadogan be asked:-

- (a) to inform the U.N. Commission that we will maintain existing sponsorship, procurement and shipping of food and fertiliser supplies for Palestine which will be required up to 15th May the latest date for the termination of the Mandate.
- (b) to inform the U.N. Commission that we will accept no direct responsibility for sponsorship, procurement and shipment of supplies required subsequently.
- (c) if the U.N. Commission request us to continue as agents procurement and shipment of food supplies, to refer to the Foreign Secretary's undertaking in the House of Commons on 12th December to render assistance to smooth out the transition, and to state that he must seek instructions.

52. Approval is sought for the following recommendations:-

- (a) General Financial Questions. (para.15)
- (b) Assets and Liabilities. (para.31)
- (c) German Assets. (para.38)
- (d) Safeguards for commercial interests (para.44)
- (e) Exports from Palestine. (para.46)
- (f) Procurement of foodstuffs and fertilisers.(para.51)

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APPENDIX A.

38

STORES IN PALESTINE.

There are large quantities of military stores (Naval, Army and Air Force) in Palestine. A considerable proportion of these stores constitutes part of the approved maintenance and reserve stores for the Middle East garrisons and the Army generally, and with the existing and prospective stringency of financial provision for the Services the necessary replacement of such stores, if they had to be abandoned in Palestine, would be extremely difficult. It is essential that every effort should be made to withdraw all military stores, which we desire to retain, from Palestine as part of the general evacuation of that country by the Forces.

The evacuation of military stores from Palestine has already begun and is to proceed pari passu with the general evacuation of the Forces through the four stages of Plan A, as recently approved by the Defence Committee and endorsed by the Cabinet. The latest review of the situation suggests that, provided conditions permit the planned orderly evacuation, it should be possible to withdraw the bulk of the stores required elsewhere. There will, however, be an additional quantity of some 150,000 tons of useful stores which would have been required had the Forces remained in Palestine. Immediate replacements will not be required elsewhere, and, since it is not possible to evacuate them, these stores will remain for local disposal by the Ministry of Supply. There is a considerable risk that we may lose even their disposal value which may amount to about £25m. This is not a contingency which can be lightly accepted, and the Cabinet have agreed that special measures, including the appointment of an officer charged with this particular task, should be taken to facilitate first

- (a) the collection and evacuation of military stores from Palestine;
- (b) the disposal of surplus stores in Palestine.

There are two developments in the Palestine evacuation, the possible effects of which upon the stores question Sir Alexander Cadogan should be asked to bear in mind in negotiation with the United Nations authorities. First, it seems possible - and the Commanders-in-Chief Middle East think it is probable - that a considerable quantity of stores will in any case have to be left behind at various stages of the planned evacuation of troops. It is proposed that plans should be discussed by Sir Alexander Cadogan with a view to the safe custody of such stores left behind by the military, and (a) to their movement to the Haifa enclave for subsequent evacuation, or (b) to their disposal, possibly an appreciable time after 1st August. Secondly, deterioration of conditions in Palestine as between the Jewish and Arab communities, the premature arrival of the United Nations Commission, or other factors, may enforce some telescoping of the military evacuation plan now approved in favour of a more rapid withdrawal upon the Haifa enclave. The Commanders-in-Chief Middle East foresee that any such contingency would probably mean a heavy additional abandonment of stores along the line of evacuation. In this event too, it would be important that such provision as may be possible in the circumstances then existing should be made for (a) subsequent concentration and movement of the stores to be evacuated into the

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Haifa enclave, and their safe custody there pending shipment overseas; and (b) the subsequent disposal of the stores declared for disposal. If a hurried evacuation were forced upon us through the United Nations Commission insisting upon what we regard as a premature arrival in Palestine, then there would be a powerful argument for insistence upon all possible facilities being provided for the evacuation of military stores which thus had to be temporarily abandoned.

It is relevant also that the evacuation of military stores, on present plans, will be slowed down by the policy of His Majesty's Government and the Palestine Administration not to interfere with the citrus trade which is so important to Palestine's economy; this consideration likewise affords ground for seeking some quid pro quo as regards facilities for subsequent evacuation of stores.

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APPENDIX B

Notes on Assets and Liabilities.

1. General Revenue Balances: these are estimated as likely to be of the order of £2 million at the 31st March, 1948. This allows for some slight recession in revenue returns offset by savings in expenditure through inability to carry out the budgetary programme. This figure might well turn into a deficit if revenues slumped to an extreme degree. No forecast is possible as to the likely position of revenue balances at 15th May; given favourable conditions it may be possible to hold the position as at the 31st March.

2. The funds for specific purposes include the following:-

- (i) Palestine Provident Fund;
- (ii) Palestine Widows' and Orphans' Pensions Fund;
- (iii) Palestine Post Office Savings Bank;
- (iv) Public Service (Supplementary Grants Board);
- (v) Renewals Funds - Ports, Posts and Telegraphs, Water Supply, etc.,

The foregoing, with the exception of (v), must be utilised to meet the obligations of the funds they relate to. In the case of (v) these funds (which amount to approximately £754,000) could be treated either as an asset of Government to be handed over or utilised for appropriate expenditure on the services for which they were created.

3. In addition to the sinking fund arrangements for the servicing of the 3% Guaranteed Stock (dealt with in paragraph 12, the sum of £3,046,787, being the unspent balance of the various issues of War Loans (Bearer Bonds) has been invested by the Crown Agents in the interests of the bondholders. A further £500,000, which had been earmarked for a specific purpose, is also being invested.

4. Government land and buildings are proposed to be dealt with under the Partition Plan by allocating immoveable assets to the Government of the territory in which they are situated. This may well present difficulties in the case of the proposed Arab State; but in our financial negotiations we should hand them over to the United Nations Commission as a Palestine Government asset and the Commission would be responsible for their subsequent disposal.

5. Internal Loans these consist in the main of loans to various municipalities, to citrus growers, local councils, village communities and agricultural loans. The foregoing have been made from Palestine general revenues at interest on varying terms of repayment. In addition, loans have been made to Municipalities, Railways and Ports from the proceeds of the War Loans (Bearer Bonds). These loans are assets of the Palestine Government for disposal as may be agreed. At the 31st March, 1946 the loans from revenue totalled £P.5,245,206 while from War Loans (Bearer Bonds) loans of £P.1,262,000 had been made.

6. Trust funds consist of Museum of Archaeology Endowment Fund, Russian State Fund and Smith (B.C.) Trust Fund, which

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must be negotiated with the Commission in the light of the respective Trust deeds.

7. Palestine 3% Defence Bonds and Palestine Savings Certificates were inaugurated under a Palestine War Loan Ordinance of 1941 for the purpose of lending the proceeds to His Majesty's Government to meet war expenditure. These bonds and certificates were issued on prescribed terms of redemption; in the case of the 3% Defence Bonds, seven years from the date of purchase, and in the case of saving certificates the normal ten-year period. Earlier repayment may be possible if this concession would secure satisfactory arrangements as to the servicing of the 3% Guaranteed stock, relieving His Majesty's Government of her guarantee on being given satisfactory indemnification as dealt with in paragraph 40.

8. Budgetary expenditure may well not be possible on many projects owing to labour and material difficulties; but the result is reflected in the estimated General Revenue balance given.

9. Obligations under Palestine Ordinances.

There may well be a number of obligations under Palestine ordinances which may need to be given adequate cover. These in the main deal with requisitioned lands and compensation payments and will require to be negotiated. The legal aspect generally in connection with Palestine Ordinances is being dealt with by the Colonial Office and it is mentioned here because certain financial obligations may arise for negotiation..

10. Contingent liabilities.

It is difficult at this stage to envisage what may be contingent liabilities; but there may well be items of stores and supplies which may not be brought to account on the termination of the Mandate. Such claims must obviously fall to be met from Palestine assets.

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APPENDIX C.

A. Palestine Potash

By a long-standing agreement with the Palestine Potash Co. the whole output of potash is taken by His Majesty's Government on a cost-plus 12½% profit basis. This potash is used to meet in part the requirements of the United Kingdom, Dominions and Colonies, and the present arrangement continues the procedure approved by the International Emergency Food Council during the period when potash was subject to international allocation. Allocations of potash ceased on 30th June, 1947. The company, under a British and Palestinian Directorate, hold a concession for 75 years from 1934, granted by the High Commissioner on behalf of Palestine, and also by agreement with the King of Transjordan on behalf of that territory in which a part of the concession lies. Royalties are paid to Palestine and to Transjordan.

2. The potash from the concession area contains a high percentage of K₂O and this high quality fertiliser is indispensable to the food production of the United Kingdom and the Empire. Potash of this quality to replace any short fall on Palestine supplies cannot be obtained from other sources and it is essential to ensure that the existing supply arrangements, which are favourable to the company and to His Majesty's Government, should be continued after the surrender of the Mandate. His Majesty's Government have supplied capital equipment and granted a loan to the company and it is largely due to the support given, and the assured market provided by His Majesty's Government, that the company have been able to continue in operation and build up a sound position.

3. Royalties under the terms of the concessions are paid to the Palestine Government and to the Transjordan Government. It is assumed that the Palestine Government's share of the royalties will be paid to the Commission on the termination of the Mandate.

4. There is, in fact, likely to be interference with potash production since, it is understood that the works of the company are located partly in the Arab and partly in the Jewish proposed states.

B. U.K. imports of foodstuffs from Palestine

1. These comprise the following estimated quantities for 1948:

	<u>tons '000</u>	<u>£'000</u>
(a) Citrus fruit 1947/48 crop	387	8,453
(b) Citrus fruit juices for soft drinks	2.1	376
(c) Concentrated orange juice (for Welfare Foods scheme)	3.5	733
(d) Essential oils	165,000(lb)	100
(e) Wines (including sacramental wines)	-	207.5
		<u>9,869.5</u>

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105,000 tons of the 1947/8 citrus fruit crop have been shipped, the balance remaining to be shipped up to April 1948.

2. Imported citrus fruits and products from Palestine are a large source of U.K. supplies amounting to not less than 75% of U.K. citrus fruit imports and to 50% of requirements for soft drinks and the welfare service.
3. Our citrus fruits are bought from individual shippers within the frame-work of an overall agreement with the Citrus Marketing Board. We should hope the Board would continue to function. If it did not we should have to buy direct from shippers. The season ends in April and begins again in the late autumn. The fruit juices are bought through London agents.

C. Petroleum Products

1. Palestine is highly important to the British Oil Position by reason of the Haifa Refinery, 100% British owned, which at present is processing 4 million tons of crude oil per annum. Plans are in hand to increase the refinery capacity to 9 million tons per annum in 1951.

2. The crude oil is received at Haifa

- (a) by Irak Petroleum Company's pipeline from Irak - 2,000,000 tons per annum.
- (b) by sea from Tripoli (Lebanon) - 1,000,000 tons per annum.
- (c) by sea from the Persian Gulf - 1,000,000 tons per annum.

The I.P.C. are constructing another pipeline from Irak to Haifa, to be completed in 1949, which will increase the potential pipeline capacity to 6½ million tons per annum.

3. The oil received and processed at Haifa is regarded as sterling oil.

4. Because of the shortage in refining capacity throughout the sterling area and the world, the loss of Haifa refinery or any attempt by local Governments to restrict or direct exports of Petroleum products or to interfere with imports of machinery, materials and crude products essential both for the normal running and maintenance of the refinery and pipelines and for expansion schemes, would have a most serious effect on the oil situation in the sterling area.

5. Palestine draws her requirements of petroleum products from Haifa refinery and neighbouring states are also fed from that source. Interference, therefore, with the production of finished products from Haifa would also have serious repercussions on these states.

6. Crude oil produced by the Irak Petroleum Company is owned by British interests (47½%), United States interests (23½%), and French interests (23½%), with the remaining 5% owned by a Mr. Gulbenkian. Interference with Haifa refinery would, therefore, have international as well as local repercussions.

7. Current expenditure in Palestine by the British Oil Companies in local dues, taxes, rents, wages, purchase of local materials and capital costs is estimated at about £5½ million. Expenditure in Palestine will be considerably higher when the present schemes for expansion are completed.

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when the present schemes for expansion are completed.

The Oil Companies provide employment for British, Arab and Jewish labour, and large quantities of stores and materials are imported by them into Palestine.

8. It would seem to be against their interests for successor Governments in Palestine to take any action which would close Haifa refinery, or restrict its activities thereby imposing sanctions on themselves and neighbouring countries and surrendering an important source of revenue.

9. The Iraq Petroleum Company and Consolidated Refineries Ltd. operate in Palestine under agreements with the Government due to expire in January, 2001, and October 2003 respectively.

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Tel. No.: Whitehall 1234.



Your Reference.....

Treasury Reference CP 85/27/1



TREASURY CHAMBERS,
GREAT GEORGE STREET,

LONDON, S.W.1.

19th December, 1947.

Extra. 47

K

45

My dear Trevelyan,

I think it will emerge from the minutes of yesterday's OMC meeting that you and I are due to produce a revise of that part of the Working Party's report on Palestine which makes recommendations on the treatment of German external assets in Palestine. I suggest that this could be done most simply as follows. First, knock out the first sentence of paragraph 38 ("It is recommended to take the line") and substitute the following:-

"H.M. Government's interest would best be served if we took the following line."

2. Second, insert a new paragraph after paragraph 38 as follows-

"However, it is possible that to take this line would be to expose us to accusations that we were trying to rob the Palestinians of German assets which properly belong to them, and this is a matter which lies very close to the hearts of Jewish refugees from Germany in Palestine. The presentation of such a line would need some care, particularly as regards the idea of transferring the liquid proceeds of German assets to the United Kingdom and the calculation of the Palestine share of them. It is recommended that this scheme be further considered by the Foreign Office and the Treasury in the light of its political repercussions. It is not urgent that Sir A. Cadogan be instructed on this point."

3. If you agree, perhaps you would let Hitchman know.

4. The next step, I think, is with you. If you can, I suggest that you should let us have your views before Christmas. Morton will be available after Christmas and we can then discuss

/it

H. Trevelyan, Esq.

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it with him.

5. I have sent a copy of this to Hitchman.

Yours ever,

Al Payfair

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1947

E

PALESTINE

12:00
22 DEC 47

Registry Number E 12104/1109/31
FROM I Smith
No. Colonial Office
Dated 15/8/47/104/27/47
Received in Registry T. M. Hunt
15 NOV 22

Pal. Financial Problems
Summary copy of letter addressed to Russell Edmund containing copy of letter received from Bureau of 1005 discussing some of the principal problems which will arise on the Mandate as terminated and the Commission assumed responsibility for administration in Palestine.

Last Paper.

12104

References.

(Print.)

(How disposed of.)

(Minutes.)

E.R. Dept.

J.S. Burns
Dec. 22

There will be continuing questions on the economic side to be considered throughout the remaining period of the mandate. Has any decision been made how these are to be handled? By the official Committee or Palestine, by continued sittings of the Working Committee set up by G.O.C., or by ad hoc inter-departmental discussion? If no decision has been made, what would be Eastern Dept. preference?

F. Evelyn
26/12.

Postcard Dept.

I am sorry not to have answered this question before, as I was away on leave.

I have now had a chance

(Action completed.)

9/11/47

(Index)

15/9/48

Next Paper.

(7/7/48-48)
12111

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chance to discuss the matter with Cmdr. Evershed, the Sec. of the O.C.P.. He felt that his Ctee. was not the proper channel for discussion of the financial and economic questions arising out of withdrawal and I agree with him.

Cmdr. Evershed suggested that Mr Higham of the C.O. (a Joint Sec. of the O.C.P.) wd act as liaison between the O.C.P. and any other body dealing with financial & economic matters.

As between a Working Party of ONC and ad hoc departmental meetings I find it difficult to choose.

But on the whole I would express a preference for

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Minutes.

for ad hoc meetings, ⁴⁹
subject to the views of
E. R. Dept.

Mr Trevelyan ✓
E. R. Dept.

M. S. Benin
Jan 12

Agreed. We have since discussed this, & P
have sent a minute to Eastern Dept, setting
out what appears to be the position as now
decided.

Prueger
67.

JTB
Jan 16

NOTHING TO BE WRITTEN IN THIS MARGIN.

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75872/154/27/47.
The Church House,
Great Smith Street, S.W.1.
19th December, 1947.

enclosed
E
50

Dear Russell Edmunds,

I enclose a copy of a letter which has been received from the Chief Secretary, Palestine, which I understand Higham has already discussed with you on the telephone. It is difficult to return a firm answer to Gurney's questions at this stage and I do not see that we can go much further than the answer proposed in the enclosed draft reply on which I should appreciate your early comments by telephone.

I am sending copies of this letter to Beith, Foreign Office, and Downie, Crown Agents.

12:00
22 DEC

Sgd. (J. Gutch).

W. RUSSELL EDMUNDS, Esq.

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Reference:-

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Great Smith Street, S.W.1.

19th December, 1947.

Entered

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12100
22 DEC

Sgd. (J. Gutch).

W. RUSSELL EDMUNDS, Esq.

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(Copy) C.S.808/3.

TOP SECRET

Chief Secretary's Office,
Jerusalem,
Palestine.

5th December, 1947. 51

My dear Lloyd,

We have been considering some of the financial problems which will arise when the Mandate is terminated and the United Nations Commission assumes responsibility for administration in Palestine.

2. The main point upon which we are not yet clear is
- (a) whether we shall be required to hand over all our liquid assets to the Commission with effect from the date of the termination of the Mandate ('Z' Day) or
 - (b) whether we shall continue to be responsible for operating the accounts until some later date when we shall be called upon, presumably by the General Assembly, to hand over the cash for distribution between the Governments of the successor States and the Joint Economic Board.
3. If alternative (a) is contemplated it will obviously be impossible to meet such commitments as the leave pay of expatriate officers in the United Kingdom (quite apart from other expenditure arising out of the evacuation which cannot be brought to account before 'Z' Day) unless a sum of money sufficient to meet this Government's liabilities in the United Kingdom for a period of, say, 6 months is remitted to the Crown Agents with the approval of the Commission.

Sir Thomas Lloyd, K.C.M.G.
Colonial Office.

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4. If on the other hand alternative (b) is proposed the United Nations Commission will no doubt attempt to exercise some control over any disbursements which may have to be made and this will inevitably lead to difficulties and delays.

5. Whichever of these two alternatives is adopted it would seem to be desirable to have two offices set up to deal with any payments which it may be found necessary to make. One of these offices would be in Palestine, possibly attached to the office of the British Consular Agent. It would be headed by the Accountant General or a senior member of his staff and it is suggested that he would have to be given some status as a representative of His Majesty's Government inasmuch as the Palestine Administration will have come to an end.

6. Another office would have to be set up in London to operate in consultation with the Colonial Office, the Treasury and the Crown Agents. This office would be responsible for paying all expatriate officers on leave, for meeting the many claims of such officers which will arise out of the evacuation and for making any other disbursements in the United Kingdom which may be found to be necessary.

7. You may also find it convenient to have a senior officer of this Administration working in the Colonial Office to advise generally on matters falling within the scope of the "Palestine Clearance Office" as described above, and also to assist in consideration of such matters as

- (i) The winding up of the Palestine Currency Board;
- (ii) The ultimate disposal of the unspent portion of the Bearer Bonds balance now invested in H.M.G. securities:

(iii)

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- (iii) Outstanding claims by the service departments against the Government of Palestine;
 - (iv) The disposal of assets under the control of the Custodian of Enemy Property;
 - (v) Problems relating to Foreign Exchange Control (including the future of Palestine's sterling balances), import and export licensing and the Government Trading Account.

8. There would seem to be strong reasons for setting up the nucleus of the machinery outlined in Paragraphs 6 and 7 above some time before 'Z' Day as it will no doubt be helpful to you to have advice based on recent knowledge of local conditions some time before this Administration actually terminates.

9. A statement of the Assets and Liabilities of this Government as at the 31st March, 1947, will be found on pages 74 and 75 of the recently printed Report of the Accountant General for the year 1946/47 but the enclosed Note which gives further details of some of the more important items may also be of assistance.

Yours sincerely,

(Sgd.) H.L. Gurney

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NOTE

54

A statement of the Assets and Liabilities of the Government of Palestine at the 31st March, 1947, will be found on pages 74 and 75 of the Accountant General's Report for the year 1946/47.

2. This should be read in conjunction with the supplementary information which is set out below:

A. LIABILITIES.

1. BEARER BONDS.

(a) The Government of Palestine has a liability of SP. 5,806,060 to Bond holders in respect of money raised as a result of four issues of Bearer Bonds.

(b) Amount already disbursed or about to be disbursed in respect of schemes for which all formalities have been completed
SP. 1,864,253

(c) Amount allocated but not yet disbursed SP. 722,500

Made up as follows:

(i) Irrevocably committed SP. 204,500

(ii) General Purposes Loan to Tel Aviv Municipality only to be paid if satisfactory arrangements for purchase of Sarona lands are submitted before withdrawal of Civil Administration SP. 518,000

(iii) Balance in hand (unallocated and unspent now invested in E.M.G. Securities) SP. 3,219,307

Total: SP. 5,806,060

Details of (b) above:

1. To make good the 1944/45 deficit	SP. 149,353
2. Campaign against black scale	SP. 150,000
3. Loan to Tel Aviv Municipality for housing	SP. 440,000
4. Loan to Tel Aviv for Other Purposes	SP. 673,000
5. Loans to Haifa Municipality for housing	SP. 300,000
6. Loan to Haifa Municipality for Other Purposes	SP. 100,000
7. Loans to other Local Authorities	SP. 51,900

Total: SP. 1,864,253

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LIABILITIES (Continued)

Details of (c) (i) above:

1. Loan to Tel Aviv Municipality for construction of schools	SP.	77,000
2. Loan to Jerusalem Municipality for housing	SP.	60,000
3. Loan to Jaffa Municipality for housing	SP.	30,000
4. Loans to other Local Authorities for housing	SP.	<u>37,500</u>
Total:	SP.	<u><u>204,500</u></u>

Sinking Funds on 31st March, 1947	SP.	256,320
Contributions to Sinking Funds provided in 1947/48 Estimates	SP.	<u>229,114</u>
Total:	SP.	<u><u>485,434</u></u>

2. PALESTINE 1/2 CONVERSION LOAN

- (a) This loan which amounts to SP. 3,600,000 is guaranteed as to principal and interest by His Majesty's Treasury in the United Kingdom under the provisions of the Finance Act 1934.
- (b) Principal, interest and Sinking Fund payments are secured on the general revenues and assets of the Government of Palestine. Half-yearly payments to the Sinking Fund commenced on the 1st May, 1943, and contributions should be sufficient to repay the loan in full on the latest date of repayment which is the 1st November, 1967. The loan may be repaid at any time between 1962 and 1967. Provision was made in the 1947/48 Estimates for SP. 235,960 to cover interest Sinking Fund and other charges.

3. PENSIONS, GRATUITIES, ETC.

- (a) The Secretary of State has already been informed that on the basis of certain assumptions the liability of this Government in respect of pensions, gratuities, etc. on the date of the termination of the Mandate will be of the order of SP. 18,000,000. Further consideration of this question in the light of certain proposals made by the Secretary of State suggests that this figure is probably an over-estimate and that the cost may not exceed SP. 15,000,000.

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B. ASSETS.

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1. LOANS TO CITRUS MARKETING BOARD FOR PACKING MATERIALS.

- (a) Loans totalling £P.2,300,000 have been made to the Citrus Marketing Board for packing materials during the 1947/48 season.
- (b) These loans are constantly being repaid and should be repaid almost in full by the end of March 1948.
- (c) In accordance with normal practice the Board might expect to carry over until the next season about £P.200,000 worth of packing materials purchased from these advances and special arrangements will have to be made if the board is to refund to Government before the 1948/49 season that portion of the loan represented by this carry over of packing materials.

2. WAR TIME ADVANCES TO CITRUS GROWERS.

- (a) Advances made to citrus growers between 1940/41 and 1946/47 are still outstanding in an amount of £P.3,584,836.
- (b) These advances are secured on the crops and also on the groves of the citrus growers but Government has waived its right to foreclose on the crops of the 1947/48 season in favour of the Banks who have made advances for that season.
- (c) It was always anticipated that these advances should be repaid over a period of about 30 years.
- (d) In addition to the total of £P.3,584,836 referred to above Government is considering taking over from the Banks debts from growers amounting to £P.120,000 in respect of advances made by the Banks to the growers during the war years. It is considered preferable in the interest of this important industry that all these debts incurred for cultivation costs during the war should be treated similarly, rather than that the Banks should be in a position to exact repayment from some growers while the great majority received lenient treatment under Government sponsorship.

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57

SIR HENRY GURNEY, C.M.G.
CHIEF SECRETARY'S OFFICE,
JERUSALEM

.....

Thank you for your letter of the 5th of December about financial problems arising on the termination of the mandate. I am afraid that it is not possible to give you a definite answer regarding the two alternatives in paragraph 2 of your letter since so much must depend on the outcome of the negotiations which Cadogan will shortly be opening with the United Nations Commission. An Interdepartmental Committee has been formed here to consider our future financial and economic policy towards Palestine and to work out the instructions which are to be given to Cadogan as regards the financial interests of the United Kingdom which we should wish him to safeguard. Naturally the whole question of the assets of the Palestine Government and the liabilities that a Successor Authority will have to discharge is one of the main issues that will require to be considered by the Committee. I enclose for your information a memorandum which has been prepared dealing both with His Majesty's Government's assets in Palestine and the assets and liabilities of the Palestine Government. Arrangements are being made for copies of the more important memoranda submitted to the Committee to be sent to Stewart.

We must I think assume that when the Mandate has been terminated we should have no legal right to retain the use of any of the Palestine Government's assets to discharge outstanding liabilities without the concurrence of the United Nations Commission. On the other hand we do not see

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how the United Nations Commission could, as a matter of practical politics, discharge ^{with your assistance} certain of its liabilities, in particular those which involve payment in the United Kingdom. There would be considerable advantage, which the Commission would no doubt appreciate, in arranging for these items to be dealt with either by the existing machinery of the Crown Agents or, as you suggest, by a separate Palestine office to be set up in London. We are discussing this point with the Crown Agents and will write to you again as soon as possible. Such arrangements for payment will presumably be required whether the liabilities can be met with the agreement of the Commission from Palestine funds or whether it proves necessary for funds to be advanced for the purpose by His Majesty's Government. As regards the Palestine end, here again the Commission will no doubt require the expert assistance of the Accountant General's department in setting up their own machinery and introducing arrangements for payments etc. Hence they would probably welcome your idea that a team headed by the Accountant General or a ^{Senior} similar member of his staff should be included amongst those who remain behind to deal with the residual problems of transfer. It is, as you know, the intention that any such staff should work under the "umbrella" of the British Consular Agent.

Despite the legal position stated in paragraph 2 above, we shall attempt as you will see from paragraph 17 of the memorandum, to establish the principle that the surrender of Palestine Government assets is conditional on the unqualified acceptance of the liabilities incurred by the Palestine Government. We naturally hope that it will be possible to reach an amicable settlement with the United Nations Commission on this matter and that the Commission may in addition be brought to agree to any arrangements we may propose for meeting certain post-Mandate liabilities by means of payments through the Crown Agents. We consider that it would in any event be

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wise to leave untouched as far as possible the Reserve Fund recently established with the Crown Agents and to meet current liabilities from other sources. I think we should count on having to make payments from funds accumulated with the Crown Agents to meet leave, pensions and other liabilities mentioned in your telegram No. 2398 for at least three months from the termination of the Mandate, and probably for the whole Interim Period.

I will write to you again as soon as we have had further discussions with the Departments concerned here. I am most grateful for your suggestion that a senior officer of the Palestine Government should work in the Colonial Office to advise generally on financial questions and I will get in touch with you again when the time seems to be opportune for this. It occurs to us that Cadogan will almost certainly require financial advice from a man with local knowledge very soon after the inception of financial talks, but it is of course too early yet for us to give any indication of when this is likely to be.

I will not bother you with a detailed account of our proposals on the subjects dealt with in your paragraph 7. The memoranda which will be sent to Stewart from time to time will show you how our minds are working on these matters.

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F.O. Minute

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to E. Hall

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22 -

Palestine Financial and Economic Questions
drawn attention to para 6 & 11 of proposals
in Working Party Report on Palestine B.P.(O.N)
(47) 152 of 2006 on Financial and
Economic Questions arising from withdrawal
of British sovereignty from Palestine.

Last Paper.

12106

References.

(Minutes.)
9. P.P. Top I Minute 18/12
- F.O. Minute, M. Beth 18/12
- B.P.(O.N.) (47). 152. 16/12

273. 23/12

(Print.)

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I wish to draw attention immediately to paragraphs 6 to 11 of the proposals in the report of the Working Party on Palestine - B.P.(O.N.)(47)152.

The suggestion is that the Treasury should submit a case for freezing Palestinian sterling balances forthwith. It is most urgent to consider the political implications of a financial decision of this nature.

The Palestinian balances are roughly £100 million, made up as follows:-

	£ millions.
Currency Board holdings	44.2
Crown Agents funds	10.7
Commercial Banking funds	45.1
Loan to His Majesty's Government	0.8

Total	100.8
	=====

If these funds are frozen, as proposed by the Treasury, before any orderly arrangement has been made for the transfer of power, we shall be liable to criticism. It will mean, in effect, that we are sole masters of the Import Programme of Palestine, and it will be we alone who will decide, for example, how much wheat Palestine is to have. It is our intention doubtless to exercise this power with moderation, but freezing the sterling balances will place the economic fate of Palestine in our hands in the eyes of the outside world. Looked at from the American point of view, hasty action of this nature can far too easily be represented as a master stroke to wreck any solution of the Palestine problem which does not conform to the wishes of His Majesty's Government.

With the strong political feelings which the Palestine question arouses and with the active Jewish organisations in America doing everything they can to muddy the waters, I fear very grave repercussions.

I appreciate fully the serious financial situation in which we find ourselves, but my feeling is that hasty action to freeze this £100 million may cost us, in the long run, very much more than a more moderate solution. If at the very moment when Congress is discussing the European Emergency Programme we present this propaganda weapon to the Jewish organisations in America (who collectively constitute probably the most powerful lobby in Washington), we shall place in jeopardy, in my view, our share of Marshall aid. In fact, we place in peril \$5,000 million in an attempt to save at most \$400 million.

I am informing the Treasury at once that we feel the political objections to freezing immediately the sterling

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balances of Palestine are very serious, and that we think it most desirable to find some solution of this problem which will not be so open to misrepresentation in America at this critical juncture.

Sir Han Patrick

18th December, 1947.

Sir Orme Sargent.
The Private Secretary.

I agree
HP
Dec 18
I agree in principle
max etc.
HP

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E.A. Dept.

63

This is the final draft of the paper for the O.N.C. on financial and economic details of withdrawal from Palestine. It will be taken by the O.N.C. at their meeting tomorrow.

Quia paras. 47 et seq. Copies have been sent to German General Economic Dept and Economic Warfare Dept. by Mrs Marsh.

Eastern Dept. Comments
generally
(in the paper as it stands.
PTO

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J.S. Deins

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NB. We attach ^{first} ~~the~~ (importance)
~~the~~ to Transjordan being
kept in the sterling area.

As regards section C of
Appendix (oil) it may be worth
pointing out: -

(a) that we are considering
leaving a force behind to
protect the ~~the~~ ^{the} ~~refineries~~ ^{refineries} if
we cannot reach satisfactory
arrangements with the U.N.
Commission ~~or~~ ^{as} the successor
state or states (see attached paper) ^{O.C.P. (47)28}

(b) Para. C 8 does not hold
for the Arab successor state.
They will be all for sabotaging
the pipe-line and weakening
the Jews financially & economically
13. Dec. 16

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Please see
Secretary of State's Minute
on attached.

Private Secretary.

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m. Maden's file

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(THIS DOCUMENT IS THE PROPERTY OF HIS BRITANNIC MAJESTY'S GOVERNMENT)

SECRET

B.P.(O.N.)(47)152

COPY NO. 22

16TH DECEMBER, 1947.

CABINET

OVERSEAS NEGOTIATIONS COMMITTEE

REPORT BY THE WORKING PARTY ON PALESTINE

Note by the Secretary

I circulate herewith for consideration by the Committee on Wednesday, 17th December, the Report by the Working Party on Financial and Economic Questions arising from the withdrawal of British Authority from Palestine.

(Signed) G.H. WILSON.

Cabinet Office, S.W.1.,

16TH DECEMBER, 1947.

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FINANCIAL AND ECONOMIC QUESTIONS ARISING FROM THE WITHDRAWAL OF BRITISH AUTHORITY FROM PALESTINE

Introductory

1. The Overseas Negotiations Committee were asked to prepare, for consideration by Ministers, a comprehensive paper on financial and economic questions arising out of the withdrawal of British authority from Palestine. (C.M.(47) 93rd Conclusions, Minute 1).

2. This report has been prepared on the basis that as far as practicable it should be assumed that the United Nations plan will be put into effect. In fact, however as far as can be foreseen, the Palestine Arabs supported by the Arab States will boycott the United Nations Commission and refuse to co-operate in the establishment of an economic union of Palestine administered by a joint economic board. Unless the Commission is furnished with a force by the United Nations for the maintenance of order it seems likely that guerilla warfare and confusion will reign in the areas evacuated by British troops. The confusion may well be increased by the migration of Jews and Arabs from areas where they are in a minority. The Jews will probably have to defend themselves within an enclave limited by military requirements: the remaining part of Palestine will be in Arab hands but is unlikely to be constituted as an Arab State since this would represent acquiescence in the partition plan. Where therefore any breakdown of the United Nations Plan would vitally affect our financial and economic interest in Palestine the relevant portion of the report will point this out and the recommendations will take account of it.

3. Very broadly the United Nations Plan provides: (a) that the mandatory powers shall hand the administration of Palestine over to a Commission appointed by the United Nations which shall establish Arab and Jewish States and an international state in the City of Jerusalem: (b) that these States shall be united in an economic union of Palestine among whose principal objectives will be a Customs Union and a Joint Currency system providing for a single foreign exchange rate: (c) that there shall be established a Joint Economic Board, whose functions will be to implement either directly or by delegation the measures necessary to realise the objectives of the Economic Union. Until the Joint Economic Board is functioning (if indeed it ever does) the United Nations Commission will have full responsibility for financial and economic administration.

GENERAL FINANCIAL QUESTIONS

Membership of Sterling Area

4. Palestine

It has to be decided whether Palestine should leave the Sterling Area on or before the termination of the Mandate.

The basis of the sterling area system is that each member is responsible for exchange control (including import policy) in its own territory. Decisions of the local control are automatically endorsed in London and it would be quite impracticable for us to attempt to vet any large number of individual transactions, or to enforce unilaterally any limit on a member country's hard currency expenditure.

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In the case of the Colonies we can and do issue instructions on exchange control policy and practice. With the Dominions we have to rely on voluntary co-operation and a willingness to receive guidance from London on major questions. With Iraq we have a more formal agreement, limiting their foreign currency expenditure. If a member does not come up to scratch and persistently ignores the precepts of London, the only remedy is to put it out of the sterling area.

The United Nations Commission knows nothing of exchange control administration on sterling area lines, and is most unlikely to see eye to eye with us on policy; even if it did, its administrative machinery will be inadequate. We could not, therefore, rely upon it to co-operate with us effectively at a time when, in view of our critical dollar position strict and parallel administration of exchange control in all parts of the sterling area is vital for the area's survival.

The Treasury therefore propose to seek Ministerial authority to arrange for Palestine to leave the sterling area before we resign the Mandate and the Committee see no objection to this proposal. The exact date at which this change should take place must be discussed with the present administration.

5. Transjordan

Transjordan has until now continued to use Palestine currency. If Palestine left the sterling area it would be virtually impossible for Transjordan to remain a member while she was using the same currency. If therefore she is to remain in the sterling area (and for political reasons it is desirable that she should), when Palestine leaves it, she will have to have different currency arrangements. It is understood that the Transjordan authorities are already considering the idea of approaching the Iraqi Government with a view to using Iraqi dinars instead of Palestine pounds. This could be done within a short time, and would be the most sensible arrangement, since the circulation in Transjordan is so small (about £P 1 million) that a separate currency would be an extravagance. Transjordan has at present no separate import licensing system and a very sketchy exchange control. If Transjordan were to remain in the sterling area in this way it would be necessary to arrange with the Transjordan Authorities for the introduction of import licensing and the tightening of exchange control.

6. Sterling Balances

The mere departure of Palestine from the sterling area would not restrict her freedom to spend all her sterling in any part of the sterling area or to move her balances about within the area, e.g. to South Africa. The whole of the balances would still be available to attract unrequited exports from the United Kingdom.

7. At 30th October, 1947, the sterling balances of Palestine and Transjordan (the latter being only a small proportion of the total) were constituted approximately as follows:-

	<u>£ millions</u>
Currency Board holdings	44.2
Crown Agents Funds	10.7
Commercial Banking funds	45.1
Loan to His Majesty's Government	0.8

Total	100.8

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8. At 30th September, 1946 the total was about £120 million, so that there has been a reduction of £20 million over 13 months of which £5½ million was during October, 1947. We are not yet in a position to tell how much of the decrease during the last few weeks is due to payment for imports and how much, if any, to switch of capital to other parts of the sterling area in anticipation of possible blocking.

9. During the transitional period the balances (if left free) must be expected to fall even more sharply, since general unrest in the country might reduce exports from Palestine and her considerable sterling receipts from British military expenditure would have come to an end.

10. In our own interest, therefore, Palestine's sterling should be blocked at an early date for the same reason that the balances of India, Egypt and Iraq were blocked. If this were not done it would be to the detriment of Palestine as well as of the United Kingdom because it would dissipate resources which the successor Governments would require for more essential long-term purposes. There is admittedly the political objection that, if we do this at once without giving the interim administration time to show whether it can carry out an import policy that would not result in a serious drawing down of the balances, we may be accused of sabotage. The figures for the last few weeks should enable us to demonstrate that it is necessary for us to take early action purely as a safeguard for ourselves and that no political discrimination is intended.

11. The Treasury therefore propose to submit a case for freezing Palestinian balances subject to sufficient releases to enable trade to continue, and the Committee see no objection to this proposal.

Currency Board

12. There can be no question of a change in the currency until the Joint Economic Board is functioning. Confidence in the present currency should be retained by continuing to make it convertible into sterling even though (if we freeze balances) we should have to insist that redemption money should be paid to blocked accounts (otherwise this would be a loophole in our blocking arrangements).

13. We should in that case propose to regard the Currency Board as still resident in the sterling area (it is in fact in London) and allow it by general licence to redeem for blocked sterling notes presented to it in London by residents in Palestine.

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14. The Treasury are seeking Ministerial authority for these proposals.

Recommendations

15. It seems certain that decisions on these general financial questions will be taken and implemented immediately and before negotiations with the United Nations Commission are begun. This will avoid any possibility of embarrassment through the Commission suggesting a different course from that decided on by the United Kingdom Government. It is recommended that, when the Commission is established and discussions on financial and economic questions begin Sir A. Cadogan should:-

(a) inform the Commission of the decisions as to membership of the Sterling Area, blocking of sterling balances and the Currency Board which have been taken and the reasons for them;

(b) suggest that the Currency Board should continue to operate until the Joint Economic Board had been established, since under paragraph D8 of the Report of the ad hoc United Nations Committee on the Palestinian Question this Board shall be the sole issuing authority;

(c) if the Commission raises the question of the disposal of the assets of the Currency Board say that insofar as there should prove to be any surplus assets these will be treated in the same way as any other assets of the Palestine Government (see para.31 below);

(d) if the Commission ask for representation on the Currency Board, say that the United Kingdom Government would be prepared to consider this request.

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ASSETS AND LIABILITIES

Fixed Assets in Palestine of His Majesty's Government

16. Details of the value of the fixed assets constructed by the Service Departments in Palestine have been requested from the Middle East but this information has not yet been received. It is believed that the bulk of the assets are sited on requisitioned, hired and expropriated land. Many of these assets are of military value only but others would have considerable civilian-use value. The Service Departments are endeavouring to sell the assets which have been constructed on freehold land, but sales of assets of major political significance will only be made with the concurrence of the Palestine Government.

17. In the absence of the report referred to, only very tentative estimates of the value of the assets can be made, but the salvage value of assets constructed on hired, requisitioned or expropriated land is believed to be of the order of £2 million and the value to a willing purchaser would probably be substantially higher.

18. It is the view of the Palestine Government that if titles remain in their present form, i.e., vested in the High Commissioner, there might be a difficulty in asserting the rights of the Service Departments of His Majesty's Government in this land after the termination of the Mandate when the office of the High Commissioner will presumably cease to exist. This land was vested originally in the High Commissioner on behalf of the Service Departments concerned, presumably to avoid any question arising of challenge under Article 5 of the Mandate, but it seems clear that the provisions of this article were not intended to preclude ordinary acquisition of private rights to land, cf. leases granted to foreign consulates and the British Army in Palestine.

19. It is the conclusion of the High Commissioner that the safest and most effective means of protecting the interests of His Majesty's Government in this land is to vest it directly in the Service Department concerned, either by a special ordinance or otherwise, and he has so informed the Military Authorities concerned in Palestine. It is their policy to endeavour to sell off all immovable assets with the least possible delay but, both because this may mean considerable loss and because in the time and with the staff available it may not prove possible to dispose of all property, some such method of protecting His Majesty's Government's interests appears necessary.

Movable Assets.

20. The only known movable assets of His Majesty's Government remaining in Palestine after the termination of the Mandate will be military stores. A detailed note on these is given in Appendix 'B'.

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Liabilities of the Palestine Government.

21. The appointment of a United Nations Commission as an administering authority for the whole of Palestine to take over the administration of the country following the termination of the Mandate involves the question of the negotiations to be carried out for the surrender of the assets of the Palestine Government and the terms upon which such a surrender should be made. In such negotiations it is essential that clear distinction is drawn between the assets of the Palestine Government and the assets of His Majesty's Government.

22. The Commission will, no doubt, be guided by the financial clauses of the Plan of Partition with Economic Union and these present some difficulties as to the definition of the obligations of the Palestine Government, the means which would be available to honour the obligations taken over by the Commission and the handling and distribution of Governmental movable and immovable assets.

23. The assets of the Palestine Government might be summarised as follows:-

- (i) General revenue balances;
- (ii) Funds for specific purposes;
- (iii) Funds in respect of Public Debt;
- (iv) Government lands, buildings and stores;
- (v) Internal loans;
- (vi) Trust funds;
- (vii) Palestine 3% Defence Bonds and Palestine Savings Certificates.

24. The liabilities of the Palestine Government might be summarised as follows:-

- (i) Budgetary expenditure until termination of the Mandate;
- (ii) Public Debt;
- (iii) Specific obligations in respect of the right of public servants including pensions, compensations or gratuities;
- (iv) Specific obligations under Palestine Ordinances;
- (v) Contingent liabilities.

25. These assets and liabilities are individually dealt with in Appendix B, except for the special problems arising on the Public Debt of Palestine and on Pension obligations, which are explained in the following paragraphs.

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26. The Public Debt of Palestine consists of:-

- (i) £P.3,600,000 - 3% Guaranteed Loan 1962-67;
- (ii) War Loan (Bearer Bonds) 1st, 2nd, 3rd and 4th issues, totalling £5,791,960.

The 3% Guaranteed Loan, less stock redemptions, at 31st March, 1947 stood at £P.3,150,000. This stock is guaranteed as to principal and interest by the Treasury under an Act of Parliament of the United Kingdom of Great Britain and Northern Ireland entitled "The Finance Act 1939" (24 and 25 George V, cap. 32).

27. The operation of the Joint Economic Board to be set up under the Partition Plan makes provision for the service of the outstanding public debt of the Palestine Government. An agreement with the United Nations Commission safeguarding the servicing of the 3% Guaranteed stock and War Loans (Bearer Bonds) should be a major objective of our financial negotiations.

28. Pension Obligations:

Palestine Government has pension obligations under Palestine Ordinances as well as obligations in connection with the Palestine Provident Fund, Widows' and Orphans' Pensions Fund. In addition the Palestine Government have not yet finalised their views as to the payment of compensation and gratuities to public servants and to the police on termination of the Mandate. Preliminary views of the Government of Palestine have indicated that their proposals may involve a sum of £P.18 million on the basis of "funding" pensions. However, it may be possible to arrive at some more economical method of meeting the charge. The position of expatriate officers of the Palestine Civil Service will need careful consideration. In the main it is hoped that the majority will be found other employment in the Colonial Service but there may be a small residue who cannot be so placed for some while after the termination of the Mandate.

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29. Qualifications on Acceptance of Financial Obligation.

3(a) of Chapter 3 of the Report of the United Nations Ad Hoc Committee on the Palestinian Question, imposes a qualification as to the financial obligations which the State shall respect and fulfil. While saying that all financial obligations of whatever nature assumed on behalf of Palestine by the Mandatory Power during the exercise of the Mandate shall be respected and fulfilled there is the important overriding condition that such obligations would be those recognised by the State. The United Kingdom delegation has reserved His Majesty's Government's position regarding any clauses in the Plan, and we must resist this qualifying condition to the extent of making the unqualified acceptance of the obligations of the Palestine Government a condition for the surrender of its assets.

30. Means of meeting obligation

Then there is the question of the means which the Commission will employ them to meet certain charges arising out of the obligations taken over. As to the servicing of the public debt and the cost of superannuation benefits now being paid or falling due in future, the Partition Plan envisages these charges as being met from the common revenue of the Joint Economic Board. This presupposes that this Board will be set up and function satisfactorily; but this would appear to be a doubtful proposition in present circumstances. Should there be difficulties in setting up (a) the respective States, which seems probable in the case of the Arab State, and (b) the Economic Union, the Commission may not be in a position to implement its agreement to discharge the liabilities taken over unless there are safeguards against such a contingency.

Recommendations

31. It is recommended that in his negotiations with the United Nations Commission Sir Alexander Cadogan should ensure that:-

- (a) a clear distinction is drawn between Palestine Government assets and assets of His Majesty's Government,

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- (b) That the vesting of land directly in the Service Departments is duly acknowledged as full and clear title of His Majesty's Government departments with freedom to dispose of such assets as they may seem desirable should they not be disposed of before the termination of the Mandate.

It is further recommended that Sir Alexander Cadogan should be asked -

- (c) To discuss with the Commission plans for the safe custody of such stores left behind by the military, and for their movement to the Haifa enclave for subsequent evacuation, possibly an appreciable time after 1st August.

It is further recommended that Sir Alexander Cadogan should be asked to establish the following principles:-

- (d) That the surrender of Palestine Government assets is conditioned on the unqualified acceptance of the liabilities incurred by the Palestine Government (there is every indication that the liabilities will exceed the liquid assets).
- (e) That notwithstanding clause 2 of Section E of Chapter 4 of the UNSCOP Report (see footnote), as long as the mandatory period lasts, Palestine Government must be free to control the finances of Palestine as she deems necessary in the interest of Palestine as a whole, and
- (f) That adequate arrangements are made to indemnify His Majesty's Government in respect of their guarantee of Palestine B. Guaranteed Stock, and for payment of superannuation benefits.

Footnote: During the period between the appointment of the United Nations Commission and the termination of the Mandate, the Mandatory Power shall, except in respect of ordinary operations, consult with the Commission on any measure which it may contemplate involving the liquidation, disposal or encumbering of the assets of the Palestine Government, such as the accumulated Treasury surplus, the proceeds of Government bond issues, State lands or any other asset.

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GERMAN EXTERNAL ASSETS IN PALESTINE

32. The General Background. By the decision of the Berlin Conference of July/August, 1945, it was decided that, "the reparation claims of the United States, the United Kingdom and other countries to reparations shall be met and from appropriate German external assets". By the provisions of Article 6 of Part I of the Final Act of the Paris Conference on Reparation, "each signatory Government shall, under such procedures as it may choose, hold or dispose of German assets within its jurisdiction in manners designed to preclude their return to German ownership or control and shall charge against its German reparation share such assets". Article 2 of Part IV of the Final Act states that "the signature of each contracting Government shall be deemed to mean that the effect of the present Agreement extends to territories under its protection or suzerainty or over which it at present exercises a mandate". Under Article IV of the Final Act of the Paris Conference on Reparation, the Inter-Allied Reparation Agency must charge the reparation account of each Signatory Government for the German assets within that Government's jurisdiction, and each Signatory Government is required to render a return of the value of such assets as defined under Article 6 of Part I of the Agreement. His Majesty's Government signed the Paris Agreement on the 21st December, 1945, when it exercised a mandate over Palestine.

33. The position of His Majesty's Government in regard to these German assets in Palestine is thus:-

- (i) His Majesty's Government is responsible to see that all German enemy assets in Palestine are so dealt with as to preclude their return to German ownership or control;
- (ii) That the value of these assets is included in the United Kingdom returns to the Inter-Allied Reparation Agency of German assets under United Kingdom jurisdiction.
- (iii) The United Kingdom's share of reparations as allocated under the Paris Act, is charged with the value of the German assets in Palestine.
- (iv) The Assembly of the Inter-Allied Reparation Agency would, we are advised, still regard the United Kingdom as the Government responsible for accounting for German assets in Palestine whether or not the mandate over that territory had been relinquished.

34. German External Assets under the Control of the Custodian of Enemy Property for Palestine

These assets total some \$8.8 million, and there are further assets to the value of perhaps twice this figure belonging to Germans interned in Palestine and in Australia. These latter assets are liable to be released to the owners under the Final Act unless such owners are held to be "enemy". After adjustments made under the I.A.R.A. accounting rules for external assets, the final sum likely to be charged against the United Kingdom reparation share in respect of German enemy assets in Palestine is \$4 million.

35. Steps taken by His Majesty's Government to secure control and transfer of German enemy assets in Palestine

The High Commissioner for Palestine has been asked to instruct the Custodian of Enemy Property for Palestine not to vest further any German property which may have to be released (e.g., internees' property). He has also been asked to consider measures whereby as much of the immovable property

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as possible can be liquidated. The High Commissioner has also been asked to advise on the possibility of transfer to the United Kingdom of all liquid assets now available and which become available as the proceeds of sale of assets.

36. Possible Financial Effects

In the first estimate of German assets within the United Kingdom jurisdiction which has been made to the Inter-Allied Reparation Agency, the sum of approximately £2 million has been included on account of these assets. The provisions of the Paris Act enable us to adjust this estimate later according to the facts. The fact that we are obliged to account for assets, the value of which we know for certainty, e.g. because they have been liquidated, but are unable in fact to secure the transfer to the United Kingdom Exchequer, would mean that our participation in other assets under Category A of Part I of the Final Act, would be reduced. One effect of this might be to reduce our share of Swiss Francs derived from the disposal of German assets in Switzerland. This reduction would not be the equivalent of the value of German Assets in Palestine which we had included in the I.L.R.A. return, but would definitely reduce our share to an extent which at the moment cannot be forecast.

37. Jewish Claims for reparation payments

The Jewish Agency have hitherto claimed that, as compensation for the sufferings of Jewry under the Nazis, Palestinian Jews should receive compensation out of reparation payments over and above that already provided for in the Final Act. Jewish propaganda will no doubt claim that the whole of German assets in Palestine should be earmarked for this purpose. The Jewish Agency has already been informed that contributions from reparations for the rehabilitation of non-repatriable victims of German action are governed by the Final Act of Paris. Any contribution to Palestine over and above the agreed Palestine share (on Future Action (II)) can only be made at the expense of His Majesty's Government, whose responsibility it is to account for all these assets, the non-receipt of which would adversely affect the reparations receipts of the United Kingdom Exchequer.

Recommendations

38. It is recommended that Sir A. Cadogan should be asked to take the line:-

(a) That the maximum amount of German immovable property should be liquidated before the mandate is relinquished, and the possibility of securing the transfer of the liquid proceeds of assets to the United Kingdom explored;

(b) That a provision should be inserted if possible in any instrument handing over the control in Palestine to which we were a party, whereby an undertaking would be given to His Majesty's Government by those responsible that German enemy assets in Palestine would be controlled and disposed of in accordance with the provisions of the Final Act of Paris, and that the proceeds of their sale or their value would be made available to the United Kingdom, with the obligation to pay Palestine her share, (which would be small) calculated in accordance with a formula adopted in the case of Colonial dependencies, or the total United Kingdom German reparation receipts when a decision has been reached; and that Sir A. Cadogan should be asked to negotiate with the Commission to secure such a provision.

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(c) That in so far as we were unable to succeed in (a) and (b) in the foregoing, the return of the value of these assets to the Inter-Allied Reparations Agency should be written down on the grounds that this had been brought about by reason of the non-accessibility of the assets to the United Kingdom.

(d) That any Jewish claim for the German assets in Palestine to be earmarked as compensation for the sufferings of Jewry under the Nazis should be resisted.

Palestine's Membership of International Economic and Financial Bodies

39. The Official Committee on Palestine are reviewing and making recommendations on all international obligations (including e.g., membership of international, economic and financial bodies) assumed by the United Kingdom on Palestine's behalf.

Safeguards for Commercial Interests

40. We need to safeguard our commercial position in Palestine in the interim period between the laying down of the Mandate and the negotiation of long term agreements with the successor states. Our object should be to negotiate an arrangement with the Commission which will safeguard our position, not only while the Commission is actually administering the territory, but for an interval thereafter sufficient to give us time to negotiate commercial treaties with the successor states. It follows that we shall have to try to persuade the Commission to place some restraints on the economic freedom of the new states for their first year or two of their existence.

Treatment of Goods

41. Palestine is at present an adherent to the Geneva Agreement on Tariffs and Trade which was signed by His Majesty's Government in the United Kingdom on behalf of the Colonies, etc., as well as the United Kingdom itself. It is for consideration (see paragraph 39) whether or not Palestine will remain a party to the Geneva Agreement on Tariffs and Trade after the Mandate is laid down. Be that as it may, we should endeavour to secure an undertaking from the Commission that they will continue to apply the Geneva Agreement on Tariffs and Trade rules, absolutely in relation to other parties to the Geneva Agreement on Tariffs and Trade and conditionally in relation to all other countries, i.e., to the extent that those countries in practice do not "discriminate" against the commerce of Palestine. The Commission should also be asked to ensure that in handing over to the successor states, if and when established, a similar undertaking valid for a period of at least two years should be obtained from them.

42. We can support our request by reference to the fact that, under the terms of the Mandate, Palestine was bound to grant equality of treatment to the goods, nationals, etc., of all members of the League of Nations (and by a separate agreement to the U.S.A.) and that this had to be given even if one of the countries concerned discriminated against Palestine. The line our representative should therefore take with the Commission is that Palestine has always followed a policy of

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PROCUREMENT OF FOODSTUFFS AND FERTILISERS

Foodstuffs

47. The Ministry of Food has hitherto dealt with the programming, sponsoring and procurement of food supplies for Palestine.

48. Requirements of bread grains and rice for part of 1948 have already been considered by the I.E.F.C. The Food Mission in Washington have been asked within the last week to submit to the I.E.F.C. requirements of oils and fats for Palestine, as part of general Middle East requirements.

49. Certain quantities of the allocated foods for 1948 have been or are in course of being procured. Some small balances of Palestinian 1947 requirements yet remain to be shipped.

50. Fertilisers

The United Kingdom sponsors the requirements of the Colonies and Mandated territories with the International Emergency Food Council in Washington. The only fertiliser now under international allocation by that body is nitrogen and the allocation of this fertiliser to Palestine for the fertiliser season ending 30th June, 1948, is 2,667 metric tons of N. Of this total, the United Kingdom is to supply 1,267 tons, Belgium 1,100 tons and Norway 300 tons. United Kingdom deliveries are made through I.C.I. (Levant), but procurement of supplies within the Belgian and Norwegian allocations is made by the Palestine Government, with such guidance as may be required from His Majesty's Government. It has been the practice in the past for the Palestine Government to use the I.C.I. (Levant) for procuring all supplies of nitrogen, but recently Norway has appeared to be unwilling to continue this arrangement.

Recommendations

51. It is recommended that Sir A. Cadogan be asked:-

(a) to inform the U.N. Commission that we will maintain existing sponsorship, procurement and shipping of food and fertiliser supplies for Palestine which will be required up to 15th May the latest date for the termination of the Mandate.

(b) to inform the U.N. Commission that we will accept no direct responsibility for sponsorship, procurement and shipment of supplies required subsequently.

(c) if the U.N. Commission request us to continue as agents procurement and shipment of food supplies, to refer to the Foreign Secretary's undertaking in the House of Commons on 12th December to render assistance to smooth out the transition, and to state that he must seek instructions.

52. Approval is sought for the following recommendations:-

- (a) General Financial Questions. (para.15)
- (b) Assets and Liabilities. (para.31)
- (c) German Assets. (para.38)
- (d) Safeguards for commercial interests (para.44)
- (e) Exports from Palestine. (para.46)
- (f) Procurement of foodstuffs and fertilisers. (para.51)

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APPENDIX A.

STORES IN PALESTINE.

There are large quantities of military stores (Naval, Army and Air Force) in Palestine. A considerable proportion of these stores constitutes part of the approved maintenance and reserve stores for the Middle East garrisons and the Army generally, and with the existing and prospective stringency of financial provision for the Services the necessary replacement of such stores, if they had to be abandoned in Palestine, would be extremely difficult. It is essential that every effort should be made to withdraw all military stores, which we desire to retain, from Palestine as part of the general evacuation of that country by the Forces.

The evacuation of military stores from Palestine has already begun and is to proceed pari passu with the general evacuation of the Forces through the four stages of Plan A, as recently approved by the Defence Committee and endorsed by the Cabinet. The latest review of the situation suggests that, provided conditions permit the planned orderly evacuation, it should be possible to withdraw the bulk of the stores required elsewhere. There will, however, be an additional quantity of some 150,000 tons of useful stores which would have been required had the Forces remained in Palestine. Immediate replacements will not be required elsewhere, and, since it is not possible to evacuate them, these stores will remain for local disposal by the Ministry of Supply. There is a considerable risk that we may lose even their disposal value which may amount to about £25m. This is not a contingency which can be lightly accepted, and the Cabinet have agreed that special measures, including the appointment of an officer charged with this particular task, should be taken to facilitate first

- (a) the collection and evacuation of military stores from Palestine;
- (b) the disposal of surplus stores in Palestine.

There are two developments in the Palestine evacuation, the possible effects of which upon the stores question Sir Alexander Cadogan should be asked to bear in mind in negotiation with the United Nations authorities. First, it seems possible - and the Commanders-in-Chief Middle East think it is probable - that a considerable quantity of stores will in any case have to be left behind at various stages of the planned evacuation of troops. It is proposed that plans should be discussed by Sir Alexander Cadogan with a view to the safe custody of such stores left behind by the military, and (a) to their movement to the Haifa enclave for subsequent evacuation, or (b) to their disposal, possibly an appreciable time after 1st August. Secondly, deterioration of conditions in Palestine as between the Jewish and Arab communities, the premature arrival of the United Nations Commission, or other factors, may enforce some telescoping of the military evacuation plan now approved in favour of a more rapid withdrawal upon the Haifa enclave. The Commanders-in-Chief Middle East foresee that any such contingency would probably mean a heavy additional abandonment of stores along the line of evacuation. In this event too, it would be important that such provision as may be possible in the circumstances then existing should be made for (a) subsequent concentration and movement of the stores to be evacuated into the

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Haifa enclave, and their safe custody there pending shipment overseas; and (b) the subsequent disposal of the stores declared for disposal. If a hurried evacuation were forced upon us through the United Nations Commission insisting upon what we regard as a premature arrival in Palestine, then there would be a powerful argument for insistence upon all possible facilities being provided for the evacuation of military stores which thus had to be temporarily abandoned.

It is relevant also that the evacuation of military stores, on present plans, will be slowed down by the policy of His Majesty's Government and the Palestine Administration not to interfere with the citrus trade which is so important to Palestine's economy; this consideration likewise affords ground for seeking some quid pro quo as regards facilities for subsequent evacuation of stores.

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APPENDIX B

Notes on Assets and Liabilities.

1. General Revenue Balances: these are estimated as likely to be of the order of £2 million at the 31st March, 1948. This allows for some slight recession in revenue returns offset by savings in expenditure through inability to carry out the budgetary programme. This figure might well turn into a deficit if revenues slumped to an extreme degree. No forecast is possible as to the likely position of revenue balances at 15th May; given favourable conditions it may be possible to hold the position as at the 31st March.

2. The funds for specific purposes include the following:-

- (i) Palestine Provident Fund;
- (ii) Palestine Widows' and Orphans' Pensions Fund;
- (iii) Palestine Post Office Savings Bank;
- (iv) Public Service (Supplementary Grants Board);
- (v) Renewals Funds - Ports, Posts and Telegraphs, Water Supply, etc.,

The foregoing, with the exception of (v), must be utilised to meet the obligations of the funds they relate to. In the case of (v) these funds (which amount to approximately £734,000) could be treated either as an asset of Government to be handed over or utilised for appropriate expenditure on the services for which they were created.

3. In addition to the sinking fund arrangements for the servicing of the 3% Guaranteed Stock (dealt with in paragraph 12, the sum of £3,048,707, being the unspent balance of the various issues of War Loans (Bearer Bonds) has been invested by the Crown Agents in the interests of the bondholders. A further £500,000, which had been earmarked for a specific purpose, is also being invested.

4. Government land and buildings are proposed to be dealt with under the Partition Plan by allocating immoveable assets to the Government of the territory in which they are situated. This may well present difficulties in the case of the proposed Arab State; but in our financial negotiations we should hand them over to the United Nations Commission as a Palestine Government asset and the Commission would be responsible for their subsequent disposal.

5. Internal Loans these consist in the main of loans to various municipalities, to citrus growers, local councils, village communities and agricultural loans. The foregoing have been made from Palestine general revenues at interest on varying terms of repayment. In addition, loans have been made to Municipalities, Railways and Ports from the proceeds of the War Loans (Bearer Bonds). These loans are assets of the Palestine Government for disposal as may be agreed. At the 31st March, 1946 the loans from revenue totalled £P.5,245,206 while from War Loans (Bearer Bonds) loans of £P.1,262,000 had been made.

6. Trust funds consist of Museum of Archaeology Endowment Fund, Russian State Fund and Smith (B.C.) Trust Fund, which

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must be negotiated with the Commission in the light of the respective Trust deeds.

7. Palestine 3% Defence Bonds and Palestine Savings Certificates were inaugurated under a Palestine War Loan Ordinance of 1941 for the purpose of lending the proceeds to His Majesty's Government to meet war expenditure. These bonds and certificates were issued on prescribed terms of redemption; in the case of the 3% Defence Bonds, seven years from the date of purchase, and in the case of saving certificates the normal ten-year period. Earlier repayment may be possible if this concession would secure satisfactory arrangements as to the servicing of the 3% Guaranteed stock, relieving His Majesty's Government of her guarantee on being given satisfactory indemnification as dealt with in paragraph 40.

8. Budgetary expenditure may well not be possible on many projects owing to labour and material difficulties; but the result is reflected in the estimated General Revenue balance given.

9. Obligations under Palestine Ordinances.

There may well be a number of obligations under Palestine ordinances which may need to be given adequate cover. These in the main deal with requisitioned lands and compensation payments and will require to be negotiated. The legal aspect generally in connection with Palestine Ordinances is being dealt with by the Colonial Office and it is mentioned here because certain financial obligations may arise for negotiation.

10. Contingent liabilities.

It is difficult at this stage to envisage what may be contingent liabilities; but there may well be items of stores and supplies which may not be brought to account on the termination of the Mandate. Such claims must obviously fall to be met from Palestine assets.

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APPENDIX C.

A. Palestine Potash

By a long-standing agreement with the Palestine Potash Co. the whole output of potash is taken by His Majesty's Government on a cost-plus 12½% profit basis. This potash is used to meet in part the requirements of the United Kingdom, Dominions and Colonies, and the present arrangement continues the procedure approved by the International Emergency Food Council during the period when potash was subject to international allocation. Allocations of potash ceased on 30th June, 1947. The company, under a British and Palestinian Directorate, held a concession for 75 years from 1934, granted by the High Commissioner on behalf of Palestine, and also by agreement with the King of Transjordan on behalf of that territory in which a part of the concession lies. Royalties are paid to Palestine and to Transjordan.

2. The potash from the concession area contains a high percentage of K₂O and this high quality fertiliser is indispensable to the food production of the United Kingdom and the Empire. Potash of this quality to replace any short fall on Palestine supplies cannot be obtained from other sources and it is essential to ensure that the existing supply arrangements, which are favourable to the company and to His Majesty's Government, should be continued after the surrender of the Mandate. His Majesty's Government have supplied capital equipment and granted a loan to the company and it is largely due to the support given, and the assured market provided by His Majesty's Government, that the company have been able to continue in operation and build up a sound position.

3. Royalties under the terms of the concessions are paid to the Palestine Government and to the Transjordan Government. It is assumed that the Palestine Government's share of the royalties will be paid to the Commission on the termination of the Mandate.

4. There is, in fact, likely to be interference with potash production since, it is understood that the works of the company are located partly in the Arab and partly in the Jewish proposed states.

B. U.K. imports of foodstuffs from Palestine

1. These comprise the following estimated quantities for 1948:

	<u>tons '000</u>	<u>£'000</u>
(a) Citrus fruit 1947/48 crop	387	8,453
(b) Citrus fruit juices for soft drinks	2.1	376
(c) Concentrated orange juice (for Welfare Foods scheme)	3.5	733
(d) Essential oils	165,000(1b)	100
(e) Wines (including sacramental wines)	-	207.5
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105,000 tons of the 1947/8 citrus fruit crop have been shipped, the balance remaining to be shipped up to April 1948.

2. Imported citrus fruits and products from Palestine are a large source of U.K. supplies amounting to not less than 75% of U.K. citrus fruit imports and to 50% of requirements for soft drinks and the welfare service.

3. Our citrus fruits are bought from individual shippers within the frame-work of an overall agreement with the Citrus Marketing Board. We should hope the Board would continue to function. If it did not we should have to buy direct from shippers. The season ends in April and begins again in the late autumn. The fruit juices are bought through London agents.

C. Petroleum Products

1. Palestine is highly important to the British Oil Position by reason of the Haifa Refinery, 100% British owned, which at present is processing 4 million tons of crude oil per annum. Plans are in hand to increase the refinery capacity to 9 million tons per annum in 1951.

2. The crude oil is received at Haifa

- (a) by Irak Petroleum Company's pipeline from Irak - 2,000,000 tons per annum.
- (b) by sea from Tripoli (Lebanon) - 1,000,000 tons per annum.
- (c) by sea from the Persian Gulf - 1,000,000 tons per annum.

The I.P.C. are constructing another pipeline from Irak to Haifa, to be completed in 1949, which will increase the potential pipeline capacity to 6 1/2 million tons per annum.

3. The oil received and processed at Haifa is regarded as sterling oil.

4. Because of the shortage in refining capacity throughout the sterling area and the world, the loss of Haifa refinery or any attempt by local Governments to restrict or direct exports of Petroleum products or to interfere with imports of machinery, materials and crude products essential both for the normal running and maintenance of the refinery and pipelines and for expansion schemes, would have a most serious effect on the oil situation in the sterling area.

5. Palestine draws her requirements of petroleum products from Haifa refinery and neighbouring states are also fed from that source. Interference, therefore, with the production of finished products from Haifa would also have serious repercussions on these states.

6. Crude oil produced by the Irak Petroleum Company is owned by British interests (47%), United States interests (23%), and French interests (23%), with the remaining 5% owned by a Mr. Gulbenkian. Interference with Haifa refinery would, therefore, have international as well as local repercussions.

7. Current expenditure in Palestine by the British Oil Companies on localities, dues, taxes, rents, wages, purchase of local materials and capital costs is estimated at about £5 1/2 million. Expenditure in Palestine will be considerably higher when the present schemes for expansion are completed.

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when the present schemes for expansion are completed.

The Oil Companies provide employment for British, Arab and Jewish labour, and large quantities of stores and materials are imported by them into Palestine.

8. It would seem to be against their interests for successor Governments in Palestine to take any action which would close Haifa refinery, or restrict its activities thereby imposing sanctions on themselves and neighbouring countries and surrendering an important source of revenue.

9. The Irak Petroleum Company and Consolidated Refineries Ltd. operate in Palestine under agreements with the Government due to expire in January, 2001, and October 2003 respectively.

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15TH DECEMBER, 1947.

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CABINET

*E.R. Dept.
Mr. S. Quin
Dec. 16*
OVERSEAS NEGOTIATIONS COMMITTEE

WORKING PARTY ON PALESTINE

DRAFT REPORT ON FINANCIAL AND ECONOMIC QUESTIONS
ARISING FROM THE WITHDRAWAL OF BRITISH AUTHORITY
FROM PALESTINE

I circulate herewith the draft report of Financial and Economic Questions arising from the withdrawal of British Authority from Palestine. Any amendments to the draft must reach the Secretary not later than 11.0 a.m. on Tuesday, 16th December. When the report is circulated to the Overseas Negotiations Committee it will contain as a last paragraph, a summary of recommendation.

(signed) J.G. MARSH

Cabinet Office, S.W.1.

15TH DECEMBER, 1947.

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FINANCIAL AND ECONOMIC QUESTIONS ARISING FROM THE WITHDRAWAL
OF BRITISH AUTHORITY FROM PALESTINE

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Introductory

1. The Overseas Negotiations Committee were asked to prepare, for consideration by Ministers, a comprehensive paper on financial and economic questions arising out of the withdrawal of British authority from Palestine. (C.M.(47) 93rd Conclusions, Minute 1).

2. This report has been prepared on the basis that as far as practicable it should be assumed that the United Nations plan will be put into effect. In fact, however as far as can be foreseen, the Palestine Arabs supported by the Arab States will boycott the United Nations Commission and refuse to co-operate in the establishment of an economic union of Palestine administered by a joint economic board. Unless the Commission is furnished with a force by the United Nations for the maintenance of order it seems likely that guerilla warfare and confusion will reign in the areas evacuated by British troops. The confusion may well be increased by the migration of Jews and Arabs from areas where they are in a minority. The Jews will probably have to defend themselves within an enclave limited by military requirements: the remaining part of Palestine will be in Arab hands but is unlikely to be constituted as an Arab State since this would represent acquiescence in the partition plan. Where therefore any breakdown of the United Nations Plan would vitally affect our financial and economic interest in Palestine the relevant portion of the report will point this out and the recommendations will take account of it.

3. Very broadly the United Nations Plan provides: (a) that the mandatory powers shall hand the administration of Palestine over to a Commission appointed by the United Nations which shall establish Arab and Jewish States in the City of Jerusalem; (b) that these States shall be united in an economic union of Palestine among whose principal objectives will be a Customs Union and a Joint Currency system providing for a single foreign exchange rate; (c) that there shall be established a Joint Economic Board, whose functions will be to implement either directly or by delegation the measures necessary to realise the objectives of the Economic Union. Until the Joint Economic Board is functioning (if indeed it ever does) the United Nations Commission will have full responsibility for financial and economic administration.

GENERAL FINANCIAL QUESTIONS

Membership of Sterling Area

4. Palestine

It has ~~to be~~ decided whether Palestine should leave the Sterling Area on or before the termination of the Mandate.

The basis of the sterling area system is that each member is responsible for exchange control (including import policy) in its own territory. Decisions of the local control are automatically endorsed in London and it would be quite impracticable for us to attempt to vet any large number of individual transactions, or to enforce unilaterally any limit on a member country's hard currency expenditure.

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In the case of the Colonies we can and do issue instructions on exchange control policy and practice. With the Dominions we have to rely on voluntary co-operation and a willingness to receive guidance from London on major questions. With Iraq we have a more formal agreement, limiting their foreign currency expenditure. If a member does not come up to scratch and persistently ignores the precepts of London, the only remedy is to put it out of the sterling area.

The United Nations Commission knows nothing of exchange control administration on sterling area lines, and is most unlikely to see eye to eye with us on policy; even if it did, its administrative machinery will be inadequate. We could not, therefore, rely upon it to co-operate with us effectively at a time when, in view of our critical dollar position strict and parallel administration of exchange control in all parts of the sterling area is vital for the area's survival.

The Treasury therefore propose to seek Ministerial authority to arrange for Palestine to leave the sterling area before we resign the Mandate and the Committee seek our objections to this proposal. The exact date at which this change should take place must be discussed with the present administration.

5. Transjordan

Transjordan has until now continued to use Palestine currency. If Palestine left the sterling area it would be virtually impossible for her to remain a member while Transjordan was using the same currency. If therefore she is to remain in the sterling area (and for political reasons it is desirable that she should), when Palestine leaves it, she will have to have different currency arrangements. It is understood that the Transjordan authorities are already considering the idea of approaching the Iraqi Government with a view to using Iraqi dinars instead of Palestine pounds. This could be done within a short time, and would be the most sensible arrangement, since the circulation in Transjordan is so small (about £P 1 million) that a separate currency would be an extravagance. Transjordan has at present no separate import licensing system and a very sketchy exchange control. If Transjordan were to remain in the sterling area in this way it would be necessary to arrange with the Transjordan Authorities for the introduction of import licensing and the tightening of exchange control.

6. Sterling Balances

The mere departure of Palestine from the sterling area would not restrict her freedom to spend all her sterling in any part of the sterling area or to move her balances about within the area, e.g. to South Africa. The whole of the balances would still be available to attract unrequited exports from the United Kingdom.

7. At 30th October, 1947, the sterling balances of Palestine and Transjordan (the latter being only a small proportion of the total) were constituted approximately as follows:-

	<u>£ millions</u>
Currency Board holdings	44.2
Crown Agents Funds	10.7
Commercial Banking funds	45.1
Loan to His Majesty's Government	0.8

Total	100.8

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8. At 30th September, 1946 the total was about £120 million, so that there has been a reduction of £20 million over 13 months of which £5½ million was during October, 1947. We are not yet in a position to tell how much of the decrease during the last few weeks is due to payment for imports and how much, if any, to switch of capital to other parts of the sterling area in anticipation of possible blocking.

9. During the transitional period the balances (if left free) must be expected to fall even more sharply, since general unrest in the country might reduce exports from Palestine and her considerable sterling receipts from British military expenditure would have come to an end.

→ 10. In our own interest, therefore, Palestine's sterling should be blocked at an early date for the same reason that the balances of India, Egypt and Iraq were blocked. This would be to the detriment of Palestine as well as of the United Kingdom because it would dissipate resources which the successor Governments would require for more essential long-term purposes. There is admittedly the political objection that, if we do this at once without giving the interim administration time to show whether it can carry out an import policy that would not result in a serious drawing down of the balances, we may be accused of sabotage. The figures for the last few weeks should enable us to demonstrate that it is necessary for us to take early action purely as a safeguard for ourselves and that no political discrimination is intended.

11. The Treasury therefore propose to submit a case for freezing Palestinian balances subject to sufficient releases to enable trade to continue, and the Committee see no objection to this proposal.

Currency Board

12. There can be no question of a change in the currency until the Joint Economic Board is functioning. Confidence in the present currency should be retained by continuing to make it convertible into sterling even though (if we freeze balances) we should have to insist that redemption money should be paid to blocked accounts (otherwise this would be a loophole in our blocking arrangements).

13. We should in that case propose to regard the Currency Board as still resident in the sterling area (it is in fact in London) and allow it by general licence to redeem for blocked sterling notes presented to it in London by residents in Palestine.

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14. The Treasury are seeking Ministerial authority for these proposals.

Recommendations

15. It seems certain that decisions on these general financial questions will be taken immediately, and before the United Nations Commission is established. This will avoid any possibility of embarrassment through the Commission suggesting a different course from that decided on by the United Kingdom Government. It is recommended that, when the Commission is established and discussions on financial and economic questions begin Sir A. Cadosan should:-

(a) inform the Commission of the decisions as to membership of the Sterling Area, blocking of sterling balances and the Currency Board which have been taken and the reasons for them;

(b) suggest that the Currency Board should continue to operate until the Joint Economic Board had been established, since under paragraph D8 of the Report of the ad hoc United Nations Committee on the Palestinian Question this Board shall be the sole issuing authority;

(c) if the Commission raises the question of the disposal of the assets of the Currency Board he should say that insofar as there should prove to be any surplus assets these will be treated in the same way as any other assets of the Palestine Government (see paras. below);

(d) if the Commission ask for representation on the Currency Board, he should say that the United Kingdom Government would be prepared to consider this request.

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ASSETS AND LIABILITIES

16. Fixed Assets in Palestine of His Majesty's Government

Details of the value of the fixed assets constructed by the Service Departments in Palestine have been requested from the Middle East but this information has not yet been received. It is believed that the bulk of the assets are sited on requisitioned and hired land. Many of these assets are of military value only but others would have considerable civilian-use value. The Service Departments are endeavouring to sell the assets which have been constructed on freehold land, but sales of assets of major political significance will only be made with the concurrence of the Palestine Government.

17. In the absence of the report referred to, only very tentative estimates of the value of the assets can be made, but the salvage value of assets constructed on hired or requisitioned land is believed to be of the order of £2 million and the value to a willing purchaser would probably be substantially higher.

18. It is the view of the Palestine Government that if titles remain in their present form, i.e. vested in the High Commissioner, there might be a difficulty in asserting the rights of the Service Departments of H.M. Government in this land after the termination of the Mandate when the office of the High Commissioner will presumably cease to exist. This land was vested originally in the High Commissioner on behalf of the Service Departments concerned, presumably to avoid any question arising of challenge under Article 5 of the Mandate, but it seems clear that the provisions of this article were not intended to preclude ordinary acquisition of private rights to land, cf. leases granted to foreign consulates and the British Army in Palestine.

19. It is the conclusion of the High Commissioner that the safest and most effective means of protecting the interests of H.M. Government in this land is to vest it directly in the Service Department concerned, either by a special ordinance or otherwise, and he has so informed the Military Authorities concerned in Palestine. It is their policy to endeavour to sell off all immovable assets with the least possible delay but, both because this may mean considerable loss and because in the time and with the staff available it may not prove possible to dispose of all property, some such method of protecting His Majesty's Government's interests appears necessary.

20. It is recommended that in his negotiations with the United Nations Commission, Sir A. Cadogan should ensure that (a) a clear distinction is drawn between Palestine Government assets and assets of His Majesty's Government, and (b) that the vesting of land directly in the Service Departments is duly acknowledged as full and clear title of His Majesty's Government Departments with freedom to dispose of such assets as they may deem desirable should they not be disposed of before the termination of the Mandate.

21. Movable Assets.

The only known movable assets of His Majesty's Government remaining in Palestine after the termination of the Mandate will be military stores.

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22. There are large quantities of military stores (Naval, Army and Air Force) in Palestine. A considerable proportion of these stores constitutes part of the approved maintenance and reserve stores for the Middle East garrisons and the Army generally, and with the existing and prospective stringency of financial provision for the Services the necessary replacement of such stores, if they had to be abandoned in Palestine, would be extremely difficult. It is essential that every effort should be made to withdraw all military stores from Palestine as part of the general evacuation of that country by the Forces, or at any rate that no more than the minimum quantity should be lost to the Services.

23. The evacuation of military stores from Palestine began on 1st December, and is to proceed pari passu with the general evacuation of the Forces through the four stages of Plan A, as recently approved by the Defence Committee and endorsed by the Cabinet. The Commanders-in-Chief Middle East have, however, given it as their opinion that even the comparatively ordered plan of evacuation, in its four stages closing in upon the Haifa enclave by 1st August, is likely to result in a loss of nearly 150,000 tons (worth about £m75) of useful stores. This is not a contingency which can be lightly accepted, and the Cabinet have agreed that special measures should be taken to facilitate the collection and evacuation of military stores from Palestine, including the appointment of an officer charged with that particular task.

24. There are two developments in the Palestine evacuation the possible effects of which on the stores situation Sir Alexander Cadogan should be asked to bear in mind in negotiation with the United Nations authorities. First, it seems possible - and the Commanders-in-Chief Middle East think it is probable - that a considerable quantity of stores will in any case have to be left behind at various stages of the planned evacuation of troops. Secondly, deterioration of conditions in Palestine as between the Jewish and Arab communities, the premature arrival of the United Nations Commission, or other factors, may enforce some telescoping of the military evacuation plan now approved in favour of a more rapid withdrawal upon the Haifa enclave. The Commanders-in-Chief Middle East foresee that any such contingency would probably mean a heavy additional abandonment of stores along the line of evacuation. In this event too, it would be important that such provision as might be possible in the circumstances then existing should be made for the subsequent concentration and movement of the stores into the Haifa enclave, and their safe custody there pending shipment overseas; if a more hurried evacuation were forced upon us through the United Nations Commission insisting upon what we regard as a premature arrival in Palestine, then there would be a powerful argument for insistence upon all possible facilities being provided for the evacuation of military stores which thus had to be temporarily abandoned.

25. It is relevant also that the evacuation of military stores, on present plans, will be slowed down by the policy of His Majesty's Government and the Palestine Administration not to interfere with the citrus trade which is so important to Palestine's economy: this consideration likewise affords ground for seeking some quid pro quo as regards facilities for subsequent evacuation of stores.

Recommendations

26. It is recommended that Sir A. Cadogan should be asked to discuss with the Commission plans for the safe custody of such stores left behind by the military and for their movement to the Haifa enclave for subsequent evacuation, possibly an appreciable time after 1st August.

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27. Liabilities of the Palestine Government.

The appointment of a United Nations Commission as an administering authority for the whole of Palestine to take over the administration of the country following the termination of the Mandate involves the question of the negotiations to be carried out for the surrender of the assets of the Palestine Government and the terms upon which such a surrender should be made. In such negotiations it is essential that clear distinction is drawn between the assets of the Palestine Government and the assets of His Majesty's Government.

28. The Commission will, no doubt, be guided by the financial clauses of the Plan of Partition with Economic Union and these present some difficulties as to the definition of the obligations of the Palestine Government, the means which would be available to honour the obligations taken over by the Commission and the handling and distribution of Governmental movable and immovable assets.

29. The assets of the Palestine Government might be summarised as follows:-

- (i) General revenue balances;
- (ii) funds for specific purposes;
- (iii) funds in respect of Public Debt;
- (iv) Government lands, buildings and stores;
- (v) internal loans;
- (vi) Trust funds;
- (vii) Palestine 3% Defence Bonds and Palestine Savings Certificates.

30. The liabilities of the Palestine Government might be summarised as follows:-

- (i) Budgetary expenditure until termination of the Mandate;
- (ii) Public Debt;
- (iii) Specific obligations in respect of the right of public servants including pensions, compensations or gratuities;
- (iv) Specific obligations under Palestine Ordinances;
- (v) Contingent liabilities.

The foregoing assets and liabilities are individually dealt with in the following paragraphs.

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31. General Revenue Balances: these are estimated as likely to be of the order of £2 million at the 31st March, 1948. This allows for some slight recession in revenue returns offset by savings in expenditure through inability to carry out the budgetary programme. This figure might well turn into a deficit if revenues slumped to an extreme degree. No forecast is possible as to the likely position of revenue balances at 15th May; given favourable conditions it may be possible to hold the position as at the 31st March.

32. The funds for specific purposes include the following:-

- (i) Palestine Provident Fund;
- (ii) Palestine Widows' and Orphans' Pensions Fund;
- (iii) Palestine Post Office Savings Bank;
- (iv) Public Service (Supplementary Grants) Board;
- (v) Renewals Funds - Ports, Posts and Telegraphs, Water Supply, etc.,

The foregoing, with the exception of (v), must be utilised to meet the obligations of the funds they relate to. In the case of (v) which amount to approximately £734,000 these funds could be treated either as an asset of Government to be handed over or utilised for appropriate expenditure on the services for which they were created.

33. In addition to the sinking fund arrangements for the servicing of the 3% Guaranteed Stock (dealt with in paragraph 12, the sum of £5,048,707, being the unspent balance of the various issues of War Loans (Bearer Bonds) has been invested by the Crown Agents in the interests of the bondholders. A further £500,000, which had been earmarked for a specific purpose, is also being invested.

34. Government land and buildings are proposed to be dealt with under the Partition Plan by allocating immovable assets to the Government of the territory in which they are situated. This may well present difficulties in the case of the proposed Arab State; but in our financial negotiations we should hand them over to the United Nations Commission as a Palestine Government asset and the Commission would be responsible for their subsequent disposal.

35. Internal Loans: these consist in the main of loans to various municipalities, to Citrus growers, local councils, village communities and agricultural loans. The foregoing have been made from Palestine general revenues at interest on varying terms of repayment. In addition, loans have been made to Municipalities, Railways and Ports from the proceeds of the War Loans (Bearer Bonds). These loans are assets of the Palestine Government for disposal as may be agreed. At the 31st March, 1946 the loans from revenue totalled £P.5,245,206 while from War Loans (Bearer Bonds) loans of £P.1,282,000 had been made.

36. Trust funds consist of Museum of Archaeology Endowment Fund, Russian State Fund and Smith (B.C.) Trust Fund, which must be negotiated with the Commission in the light of the respective Trust needs.

37. Palestine 3% Defence Bonds and Palestine Savings Certificates were inaugurated under a Palestine War Loan Ordinance of 1941 for the purpose of lending the proceeds to His Majesty's Government to meet war expenditure. These bonds and certificates were issued on prescribed terms of redemption;

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in the case of the 3% Defence Bonds, seven years from the date of purchase, and in the case of saving certificates the normal ten-year period. Earlier repayment may be possible if this concession would secure satisfactory arrangements as to the servicing of the 3% Guaranteed stock, relieving His Majesty's Government of her guarantee on being given satisfactory indemnification as dealt with in paragraph 12.

38. Budgetary expenditure may well not be possible on many projects owing to labour and material difficulties; but the result is reflected in the estimated General Revenue balance given in paragraph 4.

39. The Public Debt of Palestine consists of:

- (i) £P.3,600,000 - 3% Guaranteed Loan 1962-67;
- (ii) War Loan (Bearer Bonds) 1st, 2nd, 3rd and 4th issues, totalling £5,791,960.

The 3% Guaranteed Loan, less stock redemptions, at 31st March, 1947 stood at £P.3,150,000. This stock is guaranteed as to principal and interest by the Treasury under an Act of Parliament of the United Kingdom of Great Britain and Northern Ireland entitled "The Finance Act 1939" (24 and 25 George V, cap. 32).

40. The operation of the Joint Economic Board to be set up under the Partition Plan makes provision for the service of the outstanding public debt of the Palestine Government. An agreement with the United Nations Commission safeguarding the servicing of the 3% Guaranteed stock and War Loans (Bearer Bonds) should be a major objective of our financial negotiations.

41. Pension Obligations.

Palestine Government has pension obligations under Palestine Ordinances as well as obligations in connection with the Palestine Provident Fund, Widows' and Orphans' Pensions Fund. In addition the Palestine Government have not yet finalised their views as to the payment of compensation and gratuities to public servants and to the police on termination of the Mandate. Preliminary views of the Government of Palestine have indicated that their proposals may involve a sum of £P.18 million on the basis of "funding" pensions. However it may be possible to arrive at some more economical method of meeting the charge. The position of expatriate officers of the Palestine Civil Service will need careful consideration. In the main it is hoped that the majority will be found other employment in the Colonial Service but there may be a small residue who cannot be so placed for some while after the termination of the Mandate.

42. Obligations under Palestine Ordinances.

There may well be a number of obligations under Palestine ordinances which may need to be given adequate cover. These in the main deal with requisitioned lands and compensation payments and will require to be negotiated. The legal aspect generally in connection with Palestine Ordinances is being dealt with by the Colonial Office and it is mentioned here because certain financial obligations may arise for negotiation.

43. Contingent liabilities.

It is difficult at this stage to envisage what may be contingent liabilities; but there may well be items of stores and supplies which may not be brought to account on the termination of the Mandate. Such claims must obviously fall to be met from Palestine assets.

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44. Qualifications on Acceptance of Financial Obligation

In connection with (i), 3(a) of Chapter 3 of the Report of the United Nations Ad Hoc Committee on the Palestinian Question, imposes a qualification as to the financial obligations which the State shall respect and fulfil. While saying that all financial obligations of whatever nature assumed on behalf of Palestine by the Mandatory Power during the exercise of the Mandate shall be respected and fulfilled, there is the important overriding condition that such obligations would be those recognised by the State. The United Kingdom delegation has reserved His Majesty's Government's position regarding any clauses in the Plan, and we must resist this qualifying condition to the extent of making the unqualified acceptance of the obligations of the Palestine Government a condition for the surrender of its assets.

45. Means of meeting obligation

Then there is the question of the means which the Commission will employ to meet certain charges arising out of the obligations taken over. The servicing of the public debt and the cost of superannuation benefits now being paid or falling due in future, the Partition Plan envisages these charges as being met from the common revenue of the Joint Economic Board. This presupposes that this Board will be set up and function satisfactorily; but this would appear to be a doubtful proposition in present circumstances. Should there be difficulties in setting up (a) the respective States, which seems probable in the case of the Arab State, and (b) the Economic Union, the Commission may not be in a position to implement its agreement to discharge the liabilities taken over unless there are safeguards against such a contingency.

46. Recommendations

It is recommended that Sir A. Cadogan should be asked to establish the following principles:-

- (a) that the surrender of Palestine Government assets is conditioned on the unqualified acceptance of the liabilities incurred by the Palestine Government (there is every indication that the liabilities will exceed the liquid assets),
- (b) that notwithstanding clause 3 of Section E of Chapter 4 of the UNSCOP Report (see footnote), as long as the mandatory period lasts, Palestine Government must be free to control the finances of Palestine as she deems necessary in the interest of Palestine as a whole, and
- (c) that adequate arrangements are made to indemnify His Majesty's Government in respect of their guarantee of Palestine 3% Guaranteed Stock.

Footnote: During the period between the appointment of the United Nations Commission and the termination of the Mandate, the Mandatory Power shall, except in respect of ordinary operations, consult with the Commission on any measure which it may contemplate involving the liquidation, disposal or encumbering of the assets of the Palestine Government, such as the accumulated Treasury surplus, the proceeds of Government bond issues, State lands or any other asset.

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GERMAN EXTERNAL ASSETS IN PALESTINE

47. The General Background. By the decision of the Berlin Conference of July/August, 1945, it was decided that, "the reparation claims of the United States, the United Kingdom and other countries to reparations shall be met and from appropriate German external assets". By the provisions of Article 6 of Part I of the Final Act of the Paris Conference on Reparation, "each signatory Government shall, under such procedures as it may choose, hold or dispose of German assets within its jurisdiction in manners designed to preclude their return to German ownership or control and shall charge against its German reparation share such assets". Article 2 of Part IV of the Final Act states that "the signature of each contracting Government shall be deemed to mean that the effect of the present Agreement extends to territories under its protection or suzerainty or over which it at present exercises a mandate". Under Article 1F of the Final Act of the Paris Conference on Reparation, the Inter-Allied Reparation Agency must charge the reparation account of each Signatory Government for the German assets within that Government's jurisdiction, and each Signatory Government is required to render a return of the value of such assets as defined under Article 6 of Part I of the Agreement. His Majesty's Government signed the Paris Agreement on the 21st December, 1945, when it exercised a mandate over Palestine.

48. The position of His Majesty's Government in regard to these German assets in Palestine is thus:-

- (i) His Majesty's Government is responsible to see that all German enemy assets in Palestine are so dealt with as to preclude their return to German ownership or control;
- (ii) That the value of these assets is included in the United Kingdom returns to the Inter-Allied Reparation Agency of German assets under United Kingdom jurisdiction.
- (iii) The United Kingdom's share of reparations as allocated under the Paris Act, is charged with the value of the German assets in Palestine.
- (iv) The Assembly of the Inter-Allied Reparation Agency would, we are advised, still regard the United Kingdom as the Government responsible for accounting for German assets in Palestine whether or not the mandate over that territory had been relinquished.

49. German External Assets under the Control of the Custodian of Enemy Property for Palestine

These assets total some £8.8 million, and there are further assets to the value of perhaps twice this figure belonging to Germans interned in Palestine and in Australia. These latter assets are liable to be released to the owners under the Final Act unless such owners are held to be "enemy". After adjustments made under the I.A.R.A. accounting rules for external assets, the final sum likely to be charged against the United Kingdom reparation share in respect of German enemy assets in Palestine is £4 million.

50. Steps taken by His Majesty's Government to secure control and transfer of German enemy assets in Palestine

The High Commissioner for Palestine has been asked to instruct the Custodian of Enemy Property for Palestine not to vest further any German property which may have to be released (e.g., internees' property). He has also been asked to consider measures whereby as much of the immovable property

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as possible can be liquidated. The High Commissioner has also been asked to advise on the possibility of transfer to the United Kingdom of all liquid assets now available and which become available as the proceeds of sale of assets.

51. Possible Financial Effects

In the first estimate of German assets within the United Kingdom jurisdiction which has been made to the Inter-Allied Reparation Agency, the sum of approximately £2 million has been included on account of these assets. The provisions of the Paris Act enable us to adjust this estimate later according to the facts. The fact that we are obliged to account for assets, the value of which we know for certainty, e.g. because they have been liquidated, but are unable in fact to secure the transfer to the United Kingdom Exchequer, would mean that our participation in other assets under Category A of Part I of the Final Act, would be reduced. One effect of this might be to reduce our share of Swiss francs derived from the disposal of German assets in Switzerland. This reduction would not be the equivalent of the value of German Assets in Palestine which we had included in the I.A.R.A. return, but would definitely reduce our share to an extent which at the moment cannot be forecast.

52. Jewish Claims for reparation payments

The Jewish Agency have hitherto claimed that, as compensation for the sufferings of Jewry under the Nazis, Palestinian Jews should receive compensation out of reparation payments over and above that already provided for in the Final Act. Jewish propaganda will no doubt claim that the whole of German assets in Palestine should be earmarked for this purpose. The Jewish Agency has already been informed that contributions from reparations for the rehabilitation of non-repatriable victims of German action are governed by the Final Act of Paris. Any contribution to Palestine over and above the agreed Palestine share (on Future Action (II)) can only be made at the expense of His Majesty's Government, whose responsibility it is to account for all these assets, the non-receipt of which would adversely affect the reparations receipts of the United Kingdom Exchequer.

53. Recommendations

It is recommended that:-

(a) That the maximum amount of German immovable property should be liquidated before the mandate is relinquished, and the possibility of securing the transfer of the liquid proceeds of assets to the United Kingdom explored;

(b) That a provision should be inserted if possible in any instrument handing over the control in Palestine to which we were a party, whereby an undertaking would be given to His Majesty's Government by those responsible that German enemy assets in Palestine would be controlled and disposed of in accordance with the provisions of the Final Act of Paris, and that the proceeds of their sale or their value would be made available to the United Kingdom, with the obligation to pay Palestine her share, (which would be small) calculated in accordance with a formula adopted in the case of Colonial dependencies, of the total United Kingdom German reparation receipts when a decision has been reached: and that Sir A. Cadogan should be asked to negotiate with the Commission to secure such a provision.

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(c) In so far as we were unable to succeed in (i) and (ii) in the foregoing, the return of the value of these assets to the Inter-Allied Reparations Agency should be written down on the grounds that this had been brought about by reason of the non-accessibility of the assets to the United Kingdom.

54. Palestine's Membership of International Economic and Financial Bodies

The Official Committee on Palestine are reviewing and making recommendations on all international obligations (including membership of international, economic and financial bodies such as the International Monetary Fund) assumed by the United Kingdom on Palestine's behalf.

55. Safeguards for Commercial Interests

We need to safeguard our commercial position in Palestine in the interim period between the laying down of the Mandate and the negotiation of long term agreements with the successor states. Our object should be to negotiate an arrangement with the Commission which will safeguard our position, not only while the Commission is actually administering the territory, but for an interval thereafter sufficient to give us time to negotiate commercial treaties with the successor states. It follows that we shall have to try to persuade the Commission to place some restraints on the economic freedom of the new states for their first year or two of their existence.

56. Treatment of Goods

Palestine is at present an adherent to the Geneva Agreement on Tariffs and Trade which was signed by His Majesty's Government in the United Kingdom on behalf of the Colonies, etc. as well as the United Kingdom itself. It is for the Foreign Office Legal Adviser to say whether or not Palestine will remain a party to the Geneva Agreement on Tariffs and Trade after the Mandate is laid down. Be that as it may, we should endeavour to secure an undertaking from the Commission that they will continue to apply the Geneva Agreement on Tariffs and Trade rules, absolutely in relation to other parties to the Geneva Agreement on Tariffs and Trade and conditionally in relation to all other countries, i.e. to the extent that those countries in practice do not "discriminate" against the commerce of Palestine. The Commission should also be asked to ensure that in handing over to the successor states, if and when established, a similar undertaking valid for a period of at least two years should be obtained from them.

57. We can support our request by reference to the fact that, under the terms of the Mandate, Palestine was bound to grant equality of treatment to the goods, nationals, etc. of all members of the League of Nations (and by a separate agreement to the U.S.A.) and that this had to be given even if one of the countries concerned discriminated against Palestine. The line our representative should therefore take with the Commission is that Palestine has always followed a policy of

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non-discrimination in commercial matters and it is hoped that that policy will be continued under the Commission's regime, and further, that for the first two years of their existence the successor states shall be under an obligation to grant m.f.n. treatment to all members of the United Nations that accord the same to them.

58. The above general rule of non-discrimination would not be applied in such a way as to prevent Palestine making special customs agreements with neighbouring territories c.f. the existing preferential tariff arrangements with Syria and Lebanon.

59. Treatment of Nationals, Companies, Shipping and Civil Aviation

When the Mandate is terminated we shall have no treaty rights in Palestine for our nationals, their businesses or our shipping and civil aviation. In the long term these can only satisfactorily be safeguarded by the negotiation of a treaty of establishment and navigation with the successor states. It will not be practicable to negotiate detailed provisions with the UNO Commission, and to cover the position in the interim period we shall have to rely on a modus vivendi expressed in fairly general terms.

60. It is recommended that Sir A. Cadogan should be asked :-

(a) on the treatment of goods, to secure an undertaking as proposed in paragraphs 41 -

(b) on the treatment of nationals, companies and shipping to secure an undertaking from the Commission that, while they are responsible for administering the territory, they will grant to United Nations nationals, including juridical persons, national and most favoured nation treatment in all matters pertaining to commerce, industry, shipping, civil aviation and other forms of business activity within Palestine, subject to the reciprocal grant of similar treatment in like matters by the United Nation concerned to Palestinian nationals. This undertaking would be understood to be subject to any exceptions (e.g. in respect of coastal shipping) customarily included in commercial treaties. Similarly the provisions with respect to reciprocity granted by each of the United Nations would be understood to be subject to the exceptions customarily included in the commercial treaties concluded by that State. The Commission should also be asked to ensure that, in handing over to the successor states, if and when established, a similar undertaking valid for a period of at least two years is obtained from them.

61. Exports from Palestine which are essential to the United Kingdom

The main exports from Palestine of interest to the United Kingdom are:-

- (a) Potash;
- (b) Foodstuffs, mainly citrus fruit and fruit products;
- (c) Petroleum products.

Separate notes on these are in the Appendix. A special factor in the case of oil products is that it is a United Kingdom interest for these products to be freely exported to meet the needs of other parts of the sterling area and to earn foreign exchange.

62. It is recommended that Sir A. Cadogan be asked to request the United Nations Commission, to facilitate (a) the exports of citrus and potash to the United Kingdom; (b) the free export of petroleum products by the British oil companies to such destinations as they choose. -14-

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PROCUREMENT OF FOODSTUFFS AND FERTILISERS

63. Foodstuffs

The Ministry of Food has hitherto dealt with the programming, sponsoring and procurement of food supplies for Palestine.

64. Requirements of bread grains and rice for part of 1948 have already been considered by the I.E.F.C. The Food Mission in Washington have been asked within the last week to submit to the I.E.F.C. requirements of oils and fats for Palestine, as part of general Middle East requirements.

65. Certain quantities of the allocated foods for 1948 have been or are in course of being procured. Some small balances of Palestinian 1947 requirements yet remain to be shipped.

66. Fertilisers

The United Kingdom sponsors the requirements of the Colonies and Mandated territories with the International Emergency Food Council in Washington. The only fertiliser now under international allocation by that body is nitrogen and the allocation of this fertiliser to Palestine for the fertiliser season ending 30th June, 1948, is 2,667 metric tons of N. Of this total, the United Kingdom is to supply 1,267 tons, Belgium 1,100 tons and Norway 300 tons. United Kingdom deliveries are made through I.C.I. (Levant), but procurement of supplies within the Belgian and Norwegian allocations is made by the Palestine Government, with such guidance as may be required from His Majesty's Government. It has been the practice in the past for the Palestine Government to use the I.C.I. (Levant) for procuring all supplies of nitrogen, but recently Norway has appeared to be unwilling to continue this arrangement.

67. It is recommended that Sir A. Calogian be asked:-

(a) to inform the U.N. Commission that we will maintain existing sponsorship, procurement and shipping of food and fertiliser supplies for Palestine which will be required up to 15th May the latest date for the termination of the Mandate.

(b) to inform the U.N. Commission that we will accept no direct responsibility for sponsorship, procurement and shipment of supplies required subsequently.

(c) if the U.N. Commission request us to continue as agents procurement and shipment of food supplies, to refer to the Foreign Secretary's undertaking in the House of Commons on 12th December to render assistance to smooth out the transition, and to state that he must seek instructions.

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APPENDIX

A. Palestine Potash

By a long-standing agreement with the Palestine Potash Co. the whole output of potash is taken by His Majesty's Government on a cost-plus 12½% profit basis. This potash is used to meet in part the requirements of the United Kingdom, Dominions and Colonies, and the present arrangement continues the procedure approved by the International Emergency Food Council during the period when potash was subject to international allocation. Allocations of potash ceased on 30th June, 1947. The company, under a British and Palestinian Directorate, holds a concession for 75 years from 1934, granted by the High Commissioner on behalf of Palestine, and also by agreement with the King of Transjordan on behalf of that territory in which a part of the concession lies. Royalties are paid to Palestine and to Transjordan.

2. The potash from the concession area contains a high percentage of K₂O and this high quality fertiliser is indispensable to the food production of the United Kingdom and the Empire. Potash of this quality to replace any short fall on Palestine supplies cannot be obtained from other sources and it is essential to ensure that the existing supply arrangements, which are favourable to the company and to His Majesty's Government, should be continued after the surrender of the Mandate. His Majesty's Government have supplied capital equipment and granted a loan to the company and it is largely due to the support given, and the assured market provided by His Majesty's Government, that the company have been able to continue in operation and build up a sound position.

3. Royalties under the terms of the concessions are paid to the Palestine Government and to the Transjordan Government. It is assumed that the Palestine Government's share of the royalties will be paid to the Commission on the termination of the Mandate.

4. There is, in fact, likely to be interference with potash production since, it is understood that the works of the company are located partly in the Arab and partly in the Jewish proposed states.

B. U.K. imports of foodstuffs from Palestine

1. These comprise the following estimated quantities for 1948:

	<u>tens '000</u>	<u>£'000</u>
(a) Citrus fruit 1947/48 crop	387	8,453
(b) Citrus fruit juices for soft drinks	2.1	376
(c) Concentrated orange juice (for Welfare Foods scheme)	3.5	733
(d) Essential oils	165,000(lb)	100
(e) Wines (including sacramental wines)	-	207.5
		<u>9,869.5</u>

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105,000 tons of the 1947/8 citrus fruit crop have been shipped, the balance remaining to be shipped up to April 1948.

2. Imported citrus fruits and products from Palestine are a large source of U.K. supplies amounting to not less than 75% of U.K. citrus fruit imports and to 50% of requirements for soft drinks and the welfare service.

3. Our citrus fruits are bought from individual shippers within the frame-work of an overall agreement with the Citrus Marketing Board. We should hope the Board would continue to function. If it did not we should have to buy direct from shippers. The season ends in April and begins again in the late autumn. The fruit juices are bought through London agents.

C. Petroleum Products

1. Palestine is highly important to the British Oil Position by reason of the Haifa Refinery, 100% British owned, which at present is processing 4 million tons of crude oil per annum. Plans are in hand to increase the refinery capacity to 9 million tons per annum in 1951.

2. The crude oil is received at Haifa

- (a) by Irak Petroleum Company's pipeline from Irak - 2,000,000 tons per annum.
- (b) by sea from Tripoli (Lebanon) - 1,000,000 tons per annum.
- (c) by sea from the Persian Gulf - 1,000,000 tons per annum.

The I.P.C. are constructing another pipeline from Irak to Haifa, to be completed in 1949, which will increase the potential pipeline capacity to 6½ million tons per annum.

3. The oil received and processed at Haifa is regarded as sterling oil.

4. Because of the shortage in refining capacity throughout the sterling area and the world, the loss of Haifa refinery or any attempt by local Governments to restrict or direct exports of Petroleum products or to interfere with imports of machinery, materials and crude products essential both for the normal running and maintenance of the refinery and pipelines and for expansion schemes, would have a most serious effect on the oil situation in the sterling area.

5. Palestine draws her requirements of petroleum products from Haifa refinery and neighbouring states are also fed from that source. Interference, therefore, with the production of finished products from Haifa would also have serious repercussions on these states.

6. Crude oil produced by the Irak Petroleum Company is owned by British interests (47½%), United States interests (23½%), and French interests (25½%), with the remaining 5% owned by a Mr. Gulbenkian. Interference with Haifa refinery would, therefore, have international as well as local repercussions.

7. Current expenditure in Palestine by the British Oil Companies in local dues, taxes, rents, wages, purchase of local materials and capital costs is estimated at about \$5½ million. Expenditure in Palestine will be considerably higher when the present schemes for expansion are completed.

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when the present schemes for expansion are completed.

The Oil Companies provide employment for British, Arab and Jewish labour, and large quantities of stores and materials are imported by them into Palestine.

8. It would seem to be against their interests for successor Governments in Palestine to take any action which would close Haifa refinery, or restrict its activities thereby imposing sanctions on themselves and neighbouring countries and surrendering an important source of revenue.

9. The Irak Petroleum Company and Consolidated Refineries Ltd. operate in Palestine under agreements with the Government due to expire in January, 2001, and October 2003 respectively.

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12274

1247

PALESTINE

29 EC

Registry Number

E12274/1001/31

FROM

Mrs Longman

No.

1001

Dated

11 Nov 48

Received in Registry

19 Dec 48

Pol tax and the Sterling Area

transmit draft of Pol tax Payment
re Pol tax and the Sterling Area.

Last Paper.

12111

(Minutes.)

In P.P. 70. Minute M. Beith Dec 20.

References.

In P.P. W.G. Pass, 60. to Miss Longman 22/12.

JB Jan 10

(Print.)

(How disposed of.)

apt. Miss Longman
7/4.
from M. Longman
20/12.

(Action completed.)

J.P. 16/1

(Index)

15/9/48

Next Paper!

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Reference:-

FO 371 / 61965

The attached copy of a letter from Mr. Trevelyan to Miss Loughnane of the Treasury contains the draft statement in which Eastern Department have concurred. We now also have a re-draft by the Colonial Office enclosed in the attached letter from Mr. Boss to Miss Loughnane.

Mr. Boss, in the final paragraph of his re-draft, has stuck to a form of words about the Currency Board which do not suit Eastern Department so well as the form of words adopted in the Foreign Office draft. But as a matter of fact the Colonial Office statement that the "Currency Board will continue to function on behalf of the holders of currency and of Palestine generally, pending ordinary transition to what arrangements may in due course be made for the future of the currency in Palestine" has already been made in reply to a Parliamentary Question. I think, however, that the statement now under consideration is bound to be much more widely read and discussed than the previous Parliamentary Question and I therefore think we should insist upon our wording. This merely speaks of the existing Currency Board "continuing to function during the period of transition" and does not involve us in responsibilities which might be indefinitely prolonged, even after the termination of the Mandate.

It is unlikely that
~~Indicative of~~ much further progress will be made in this matter before the New Year. I imagine that before any statement is made the Treasury must:-

- (a) Have Cabinet approval for the proposals contained in the Overseas Negotiations Committee's paper, and
- (b) Make the necessary arrangements for the exclusion of Palestine from the sterling area and the blocking of her assets.

I understand from the Cabinet Office that it is not likely that the Cabinet can take the O.N.C. paper until the beginning of January and necessary measures by the Treasury will also take time. It may therefore still be possible to make this statement in the form of a written reply to a Parliamentary Question when Parliament returns in January.

Mr Beeky

J.G.S. Beith
(J.G.S. BEITH.
22nd December, 1947.)

*H. Beeky 311
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Mr Trevelyan

HW E

(see minutes behind)

Eastern Dept. agree to 109
 the draft as amended. As
 the last para. now stands
 it is unnecessary for us
 to make a caveat about
 the continued functioning of
 the Currency Board

D. S. Blair
 Dec. 20

Nothing to be Written in this Margin.

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to avoid ~~unnecessary~~ damage to the financial and economic structure of Palestine. Being damaged

The approaching termination of the Palestine Mandate has made it necessary for us to consider most carefully what financial arrangements should be made in the interests of the successor Governments in Palestine and of the sterling area as a whole, in order to preserve the resources of Palestine for the use of the new States and to safeguard our own balances. We are ^{H.T.G.} ~~determined,~~ ^{resolved} during the period of our withdrawal from Palestine, ~~to do all in our power to make the transition easy and to ensure that the new States are settled in as favourable circumstances as the situation will permit.~~

During the period of the Mandate, Palestine has been a member of the sterling area. She is also the holder of sterling balances, the present total of which is in the region of £100,000,000, a large amount in proportion to the size of the country. These balances have been decreasing rapidly in recent months and £million has gone in the last weeks. This drain obviously cannot be allowed to go on. Large withdrawals inspired by lack of confidence in this period of uncertainty, ~~would~~ mean that the resources of Palestine which will be needed ~~later~~ for the development of the country ^{are in danger of being} ~~would be~~ frittered away in a few months. The drawing down of the balances in this way would also aggravate the balance of payments problem of the United Kingdom and the rest of the sterling area.

As in the case of other countries holding large balances -e.g. India, Egypt and Iraq - the only way in which the drain can be stopped is by blocking the greater part of the balances. ^{H.T.G.} ~~We~~

/have

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have decided therefore, for the reasons ~~that I have~~
given above, that the balances of Palestine must be
similarly blocked and ~~we~~ have taken steps accordingly.

~~There may be some who will wish to misrepresent~~
~~this action as an attempt by H.M. Government to~~
~~deny the successor States the resources which will~~
~~enable them to ~~live~~ and carry on their normal~~
international trade. ~~I wish therefore to emphasise~~
~~again that this action is necessary in the interests~~
~~of Palestine and that H.M. Government will make~~
~~available to the Government of Palestine during the~~
~~interim period and subsequently to the successor~~
~~states through the Joint Economic Board the resources~~
which are necessary for Palestine to meet her normal
needs, ~~H.M. Government will also ensure that there~~
is no interruption in the machinery of procurement
and ~~transport~~ ^{import} of the food and raw materials which
Palestine requires, though it is of course
~~essential that the successor states should set up~~
~~their own machinery for procuring their ~~essential~~~~
needs at the earliest possible date.

For ~~the~~ ^{equivalent} present needs of Palestine,
x million pounds ~~is~~ ^{are} being released immediately in
order to provide y million pounds as working balances
for the banks in Palestine and z million pounds to
be used together with current accruals of sterling,
which would be at Palestine's disposal for current
expenditure during the next ~~few~~ months.

The amounts of these releases have been
arrived at after careful consideration and consult-
ation with the present administration and H.M.
Government is satisfied that they should prove
amply sufficient to enable Palestine to meet all
her needs during the period. The whole of the
financial arrangements and the policy for release

/from

(B)
This action will not

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from the sterling balances will be the subject of consultation between H.M. Government's representative at the United Nations, Sir ~~Andrew~~ ^{Alexander} Cadogan and the Commission for Palestine which is now being established by the United Nations, and the views of the Commission will be given full consideration in the formation of policy in regard to future releases. As soon as the Joint Economic Board is established, we shall also initiate discussions with that Board for the same purpose.

In the special circumstances of Palestine, where we must assume that for a period at least a thorough and comprehensive exchange control will be lacking, the blocking of the balances would not entirely safeguard the resources of Palestine, while the country remained in the sterling area. If we allowed a situation to continue in which such leakages could occur, we should not be carrying out our responsibilities to the sterling area or to Palestine. We therefore consider it desirable in the interests of both that Palestine should not remain a member of the sterling area and she has ceased to be a member therefore from, the date on which the balances have been blocked.

The existing currency board will continue to function ~~pending an orderly transition to whatever arrangements may be made for the future currency of Palestine.~~ ^{during the period of} We are anxious that the United Nations Commission should be represented on the Board, if it so desires.

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The approaching termination of the Palestine Mandate has made it necessary for us to consider most carefully what financial arrangements should be made in the interests of the successor Governments in Palestine and of the sterling area [as a whole,] in order to preserve the resources of Palestine for the use of the new States and to safeguard our own [balances] ^{balances of payments position} H.M.G. are resolved during the period of their withdrawal, to do all in their power to prevent damage to the financial and economic structure of Palestine,

During the period of the Mandate, Palestine has been a member of the sterling area. She is also the holder of sterling balances, the present total of which is in the region of £100,000,000, a large amount in proportion to the size of the country. These balances have been ^{drawn on} decreasing rapidly in recent months and £..... million has gone in the last weeks. This drain obviously cannot be allowed to go on. Large withdrawals inspired by lack of confidence in this period of uncertainty, mean that the resources of Palestine which will be needed for the development of the country are in danger of being ^{unduly depleted} frittered away in a few months.] The drawing down of the balances in this way would also aggravate the balance of payments problem of the United Kingdom and the rest of the sterling area.

As in the case of other countries holding large balances - e.g. India, Egypt and Iraq - the only way in which the drain can be stopped is by blocking the greater part of the balances. H.M.G. have decided therefore, for the reasons given/

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given above, that the balances of Palestine must be similarly blocked and have taken steps accordingly. This action will not deny to the successor States the resources which will enable them to carry on their normal international trade. H.M.G. will make available for Palestine during the interim period and subsequently, the resources which are necessary [for the country's needs.]

[present] immediate
For requirements x million pounds are being [rationally] x released immediately in order to provide y million pounds as working balances for the banks in Palestine and z million pounds to be used together with current accruals of sterling, which [will] be at Palestine's disposal for current expenditure [during the next] months. }

The amounts of these releases have been arrived at after careful consideration and consultation with the present administration and H.M. Government is satisfied that they should prove amply sufficient to enable Palestine to meet all her needs during the period. [The whole of the financial arrangements and] the policy for release from the sterling balances will be the subject of consultation between H.M. Government's representative at the United Nations, Sir Alexander Cadogan and the Commission for Palestine which is now being established by the United Nations, and the views of the Commission will be given full consideration in the formation of policy in regard to future releases. As soon as the Joint Economic Board is established, we shall also initiate discussions with that Board for the same purpose.

In the special circumstances of Palestine, where we must assume that for a period of at least a thorough and comprehensive exchange control will

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*Should the mission
be done in 1948
will be ready to
discuss with them
how they could be
introduced to the
sterling area.*

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will be lacking, the blocking of the balances would not entirely safeguard the resources of Palestine, while the country remained in the sterling area. If we allowed a situation to continue in which such leakages could occur, we should not be carrying out our responsibilities to the sterling area or to Palestine. We therefore consider it desirable in the interests of both that Palestine should not remain a member of the sterling area, and she has ceased to be a member therefore from, the date on which the balances have been blocked. x

[The existing currency board will continue to function during the period of transition.]

[We are anxious that the United Nations Commission should be represented on the Board, if it so desires.]

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VE

Tel. No.: Whitehall 1234

Enter v.e. H.P.

TREASURY CHAMBERS, 20712
GREAT GEORGE STREET
LONDON, S.W.1. 116



Your Reference.....

Treasury Reference **29**.....

Dear Mr. Trevelyan,

I enclose a draft of the Palestine statement which I hope is on the lines we all agreed last night. I am sending copies to Mr. Beith and Mr. Boss. *All comments welcome, of course.*

Yours sincerely,

Mary Loughrane

H. Trevelyan, Esq.,
Foreign Office

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QUESTION

To ask the Secretary of State for Foreign Affairs whether he will make a statement about the present position of Palestine in relation to the sterling area.

ANSWER

During the period of the Mandate Palestine has been a member of the sterling area. She is also the holder of sterling balances whose present total is in the region of £100 million, a large amount in proportion to the size of the country. These balances have been decreasing rapidly in recent months and £ million has gone in the last weeks. This obviously cannot be allowed to go on for it is in the interests neither of the United Kingdom, whose balance of payments problem is aggravated by unrequited exports, nor of Palestine since it means the frittering away of assets which will be needed later on to enable long term development projects to be carried out.

As in the case of other countries holding large balances, e.g., India, Egypt, and Iraq, the only way in which the drain can be stopped is by blocking the greater part of the balances. In the special circumstances of Palestine, where we must assume that for a period at least a thorough and comprehensive exchange control will be lacking, blocking would not solve the problem while Palestine remained in the sterling area. Moreover, at this time, when our external financial position is so critical, the sterling area could

leakages, which might be very substantial, from other parts of the sterling area through

not risk retaining a member which was not in a position to administer strict exchange control on normal sterling area lines.

As from therefore, Palestine ceases to be a member of the sterling area and her sterling balances have been blocked. £ X million is being released immediately in order to provide £ Y million as working balances for the banks in Palestine

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and £ 2 million to be used, together with current accruals of sterling, which would be at Palestine's free disposal, for current expenditure during the next months. The amounts of these releases have been arrived at after full consideration and consultation with the present administration and we are satisfied that they should prove amply sufficient to enable Palestine to meet all her needs during the period. At the end of that period, or earlier if necessary, we shall have to discuss with the Joint Economic Board the amount of further releases required.

Handwritten notes:
 The amount of releases
 should be discussed
 with the Joint Economic Board

As regards currency arrangements, the existing Currency Board will continue to function mutatis mutandis in the interests of the holders of currency and of Palestine generally pending an orderly transition to whatever arrangements may in due course be made for the future management of the currency of Palestine. We hope it will be possible to arrange for the United Nations Commission to be represented on the Board if it so desires.

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Mr. Beith

OUT FILE

FOREIGN OFFICE,

S.W.1.

20th December, 1947.

Many thanks for your letter of the 19th December and the draft about Palestine. Eastern and Economic Relations Departments have suggested some amendments in your draft and I am enclosing it. Could you let me know on Monday morning whether you agree or if you have any further comments?

Since the House will be in recess at the end of this month, the statement will have to be issued in some other way other than as an answer to a Parliamentary Question.

I am sending a copy of this to Bass. Beith also has a copy.

H. Trevelyan.

Miss P.M. Loughnane,
Treasury.

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H.T. The approaching termination of the Palestine Mandate has made it necessary for us to consider most carefully what financial arrangements should be made in the interests of the successor Governments in Palestine and of the sterling area as a whole, in order to preserve the resources of Palestine for the use of the new States and to safeguard our own balances. H.M.G. are resolved during the period of their withdrawal, to do all in their power to prevent damage to the financial and economic structure of Palestine.

During the period of the Mandate, Palestine has been a member of the sterling area. She is also the holder of sterling balances, the present total of which is in the region of £100,000,000, a large amount in proportion to the size of the country. These balances have been decreasing rapidly in recent months and £..... million gone in the last weeks. This drain obviously cannot be allowed to go on. Large withdrawals inspired by lack of confidence in this period of uncertainty, mean that the resources of Palestine which will be needed for the development of the country are in danger of being frittered away in a few months. The drawing down of the balances in this way would also aggravate the balance of payments problem of the United Kingdom and the rest of the sterling area.

As in the case of other countries holding large balances - e.g. India, Egypt and Iraq - the only way in which the drain can be stopped is by blocking the greater part of the balances. H.M.G. have decided therefore, for the reasons

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given above, that the balances of Palestine must be similarly blocked and have taken steps accordingly.

This action will not deny to the successor States the resources which will enable them to carry on their normal international trade. H.M.G. will make available for Palestine during the interim period and subsequently, the resources which are necessary for the country's needs.

present
For requirements x million pounds are being released immediately in order to provide y million pounds as working balances for the banks in Palestine and z million pounds to be used together with current accruals of sterling, which would be at Palestine's disposal for current expenditure during the next months.

The amounts of these releases have been arrived at after careful consideration and consultation with the present administration and H.M. Government is satisfied that they should prove amply sufficient to enable Palestine to meet all her needs during the period. The whole of the financial arrangements and the policy for release from the sterling balances will be the subject of consultation between H.M. Government's representative at the United Nations, Sir Alexander Cadogan and the Commission for Palestine which is now being established by the United Nations, and the views of the Commission will be given full consideration in the formation of policy in regard to future releases. As soon as the Joint Economic Board is established, we shall also initiate discussions with that Board for the same purpose.

In the special circumstances of Palestine, where we must assume that for a period of at least a thorough and comprehensive exchange control will

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will be lacking, the blocking of the balances would not entirely safeguard the resources of Palestine, while the country remained in the sterling area. If we allowed a situation to continue in which such leakages could occur, we should not be carrying out our responsibilities to the sterling area or to Palestine. We therefore consider it desirable in the interests of both that Palestine should not remain a member of the sterling area and she has ceased to be a member therefore from the date on which the balances have been blocked.

The existing currency board will continue to function during the period of transition. We are anxious that the United Nations Commission should be represented on the Board, if it so desires.

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With the compliments of Mr. Boes

Colonial Office, INDEXED
Dover House,
Whitehall, S.W.1.

123
22 December, 1947

SECRET

Dear Miss Loughnane,

I enclose a re-draft of the Palestine Statement circulated with your letter of 19th December, which was typed before the Foreign Office re-draft was received. In view of the urgency I have not re-cast since the amendments I have suggested in the main body of the Answer are merely verbal, and may, I think, be regarded as superseded by the Foreign Office re-draft which generally seems an improvement. The question of general policy is being submitted on other papers to the Secretary of State and therefore I do not comment on it.

Regarding the final paragraph relating to the Currency Board however, we prefer the original Treasury drafting subject to one amendment. We are anxious as a matter of general policy to avoid being associated with the United Nations Commission in any joint responsibility, while being willing to give them all facilities and information about what is happening. Accordingly we feel that on this point we must ask for the amendment indicated in the enclosed re-draft which has substituted the words -

"appoint a representative to act as an observer at the deliberations of the Board if the Commission so desires"

for the original

"be represented on the Board if it so desires".

MISS M. LOUGHNANE,

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124
I am sending copies of this letter and enclosure
to Mr. Trevelyan and Mr. Beith.

Yours sincerely,

W. G. Boss

(W.G. Boss)

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QUESTION

To ask the Secretary of State for Foreign Affairs whether he will make a statement about the present position of Palestine in relation to the sterling area.

ANSWER

During the period of the Mandate Palestine has been a member of the sterling area. She is also the holder of sterling balances whose present total is in the region of £100 million, a large amount in proportion to the size of the country. These balances have been decreasing rapidly in recent months and £ million has gone in the last weeks. This is a serious matter both for the United Kingdom, whose balance of payments problem is aggravated by unrequited exports, and for Palestine since it means the frittering away of assets which will be needed later on to enable long term development projects to be carried out.

As in the case of other countries holding large balances, e.g. India, Egypt, and Iraq, the only way in which the drain can be stopped is by blocking the greater part of the balances. In the special circumstances of Palestine, where we can only assume that for a period at least a thorough and comprehensive exchange control will be lacking, blocking would not solve the problem while Palestine remained in the sterling area. Moreover, at this time, when our external financial position is so critical, the sterling area could not risk leakages, which might be very substantial, from any territories of the area through a member which was not in a position to administer strict exchange control on normal sterling area lines.

The recent heavy withdrawals of Palestine balances make it desirable that immediate steps be taken before the termination of the Mandate to conserve her assets. As from therefore, Palestine will no longer be a member of the sterling area and her sterling balances have been blocked. £ X million is being released immediately in order to provide £ Y million as working balances

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12275

1947

PALESTINE

29 EG 127

Registry Number

£12275/1100/21

FROM

44 hours cotton

No.

Lancashire

Dated 24/11/47

Received in Registry

22/11/47
29

Political Sterling Balance

transmits draft paper dated 21/11/47 dealing with Political Sterling Balance. Also for 44 hours cotton.

Last Paper.

12274

(Minutes.)

JB Jan 12

References.

(Print.)

(How disposed of.)

(Action completed.)

G. C. M. / 15/1/48

(Index)

[Signature] / 15/1/48

Next Paper.

(7/2/48 - 48)

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412275

Treasury Chambers.
Great George Street,
S.W.1.

22nd December, 1947

Entered.

FD 23/2

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Dear Hall-Patch, 29 EC

PALESTINE

Please see enclosed draft Paper. I should value any comment - as urgently as possible.

Yours sincerely,

Sir Edmund Hall-Patch, K.C.M.G.,

Foreign Office.

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acceptance of the liabilities incurred by the Palestine Government. It would be reasonable to make any releases subject to Treasury permission until satisfactory arrangements have been made to this end. But immediate permission might be made for the release of say £1 million as a working balance.

(ii) Commercial balances £4.1 million

Balances of private individuals (not included in this figure) need not be blocked at all. This will obviate a mass of detailed administrative work, including any questions about returning British subjects etc. The question is thus confined to the restriction of the use of the London balances of the Palestine banks, and the releases should be concentrated on these. Under the normal drill, any new accruals of sterling will be credited to free accounts. Since this is the season when sterling flows in from Ministry of Food fruit purchases, we need not worry unduly about working balances. It is suggested that the position would be amply covered by releases totalling [£12 million], of which £4 would be called working balances, and the remainder would be a release "in respect of 1948". This is indeed a generous figure, by comparison with Egypt or Iraq, but political considerations no doubt make it essential to avoid any appearance of non-cooperation. Consultation with the Bank of England as to the apportionment of the £12 million between the banks concerned.

*English...
commission*

(iii) Currency Board £43.2 million

No blocking action should be taken. The Board should be treated as a resident in the U.K. (which it is) so that it requires permission to pay sterling to any resident outside the sterling area. Blanket permission should be given for payments in respect of Palestine Currency notes to be made to the blocked account of any of the Palestine Banks for account of the person presenting the notes. (The Banks would also have permission to pay sterling from blocked accounts in exchange for Palestine notes.) Other payments of sterling /by

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than any Colony (except perhaps Ceylon). The proposals above are already more favourable than the treatment given to India, Egypt, Brazil, Uruguay etc.

8. Transjordan

It is very difficult to achieve a complete separation of Transjordan funds from those of Palestine. But there need be no objection to making a complete release, for use by Transjordan only, of any balances ^{which} with the banks concerned can segregate as being assets of their Transjordan branches. Notes had better follow the Palestine drill, at least until Transjordan can arrange to use a separate currency, in which case any Palestine notes circulating in Transjordan could be redeemed against payment of sterling by the Palestine Currency Board to the new Transjordan Currency authority, whatever it is. Such sterling would be free of restrictions, being in the hands of a resident in the sterling area.

9. The Future

- (i) Government balances would be released for payment of the liabilities of the Government of Palestine.
- (ii) Commercial balances would be gradually released in the light of circumstances it is not yet possible to foresee.
- (iii) The assets of the Palestine Currency Board could eventually be turned over to whatever new authority becomes responsible for the Currency, against surrender of the existing circulation as it was replaced by a new currency. Any balances would have to remain as a reserve of the (old) Currency Board against notes not collected by the new authority, until some satisfactory arrangement could be made to provide for the rights of their holders.

When the new Currency Authority comes into existence, an adjustment will be necessary in the release mechanism, so that the whole of the releases shall be under the control

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of the new Government, who will be able to apportion them at their discretion.

10. Dollar Releases

In view of the American links, I see no need to make any provision for convertibility into any currency other than sterling. Palestine can utilise dollar availability to secure any other currency she may need.

11. The Statistical Picture

Figures provided by the Bank of England are attached to this memorandum.

22nd December, 1947

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PALESTINE: BALANCE OF PAYMENTS WITH REST OF WORLD

(Amounts in £ millions)

1. Palestine's Balance of Payments is at present dominated by two factors, (a) heavy military expenditure by the U.K. and (b) support from Jews in America both in cash and kind.
2. The attached statements (which in view of the intended withdrawal make a purely arbitrary guess, at what military expenditure will be in 1948) exclude goods imported free under the Jewish Agency Gift-dollar scheme. No figures for such imports are available in London but by assuming them to be roughly equal to the difference between recorded imports and recorded payments to U.S.A. and Canada (not an entirely satisfactory method over a short period) the balance of payments on current account may be set out more revealingly as follows:-

£ millions	<u>1946</u>	<u>1947</u>	<u>1948</u>
Imports (c.i.f.)	52½	74	73
Exports (f.o.b.)	17½	19	25
Deficit on visible trade	-35	-55	-48
Net invisibles (including oil)	-	+ 2	- 1
Deficit on ordinary account	-35	-53	-49
Jewish Agency Gifts (very conjectural)			
: in cash	+ 6	+ 4	+ 5
: in kind	+ 3½	+ 7	+ 5
Military expenditure	- 25½	-42	-39
Cost of camps in Cyprus	+ 23	+18½	+ 8
Deficit on current account	- 2½	-24½	-33½

3. So far as the U.K. is concerned the forecasts in the tables are mostly based on Departmental estimates; those for U.S.A., Canada, South and Central America are based on telegrams 1987 and 1988^A from Palestine.
4. The bulk of the expenditure during the first half of 1948 on the cost of camps in Cyprus represents monies already owing and is due for early settlement.
5. As at present forecast Palestine's sterling balances are likely to be drawn down during 1948 by 33½.

19th December, 1947.

^ The difference between imports from and payments to Canada suggests that Jewish Agency dollars are also being used to purchase goods in Canada.

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PALESTINE: BALANCE OF PAYMENTS WITH REST OF WORLD

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1. CURRENT ACCOUNT

£ millions

	1946	1947				1948			
	Year	I	II	III	Forecast				
					IV	Year	I & II	III&IV	Year
PAYMENTS									
<u>Imports (c.i.f.)^(a)</u>									
United Kingdom	10.9	3.7	2.4	2.5	3.0	11.6	7.5	8.5	16.0
U.S.A.	3.3	1.2	1.1	2.6	3.0	7.9	} 4.4	1.6	6.0 ^(f)
Canada	.7	.2	.2	.4	.5	1.3			
S. & C. America	1.1	.2	.6	.5	.5	1.8			
Turkey	5.2	1.7	1.2	1.5	1.5	5.9	3.0	3.0	6.0
Other	27.5	8.6	9.6	10.0	10.0	38.2	20.0	20.0	40.0
Refined oil ^(b)	48.7	15.6	15.1	17.5	18.5	66.7	34.9	33.1	68.0
Cost of camps in Cyprus	4.2	1.0	1.2	1.3	1.3	4.8	2.0	3.0	5.0
Invisibles: U.K.	-	1.2	-	-	-	1.2	2.7	-	2.7
: U.S.A.	.7	.1	.1	.2	.2	.6	.3	.3	.6
: Other	1.0	.3	.2	.4	.4	1.3	.6	.6	1.2
: ?	?					?			?
Total identified payments	54.6	18.2	16.6	19.4	20.4	74.6	40.5	37.0	77.5
RECEIPTS									
<u>Exports & re-exports (f.o.b.)^(c)</u>									
United Kingdom	3.2	3.1	1.4	.8	2.5	7.8	8.3	4.9	13.2
U.S.A.: Diamonds	4.6	.1	.1	.1	.1	.4	} .7	.9	1.6
: Other	.5	-	-	-	-	-			
Canada	.1	-	-	-	-	-			
S. & C. America	-	-	-	-	-	-	5.0	5.0	10.0
Other	8.9	3.5	2.3	2.6	2.5	10.9			
Oil companies expenses	17.3	6.7	3.8	3.5	5.1	19.1	14.0	10.8	24.8
Military expenditure ^(d)	4.2	1.2	1.7	1.8	1.8	6.5	2.5	2.5	5.0
Invisibles: U.K.	22.8	5.0	4.7	4.5	4.5	18.7	8.0	-	8.0
: U.S.A. ^(e)	1.2	.7	.3	.3	.3	1.6	.6	.6	1.2
: Other	6.8	1.6	.9	1.0	.9	4.4	2.5	2.5	5.0
: ?	?					?			?
Total identified receipts	52.3	15.2	11.4	11.1	12.6	50.3	27.6	16.4	44.0

- (a) Excluding crude oil and oil companies equipment and also goods imported free under Jewish Agency Gift-dollar Scheme.
- (b) Payments to U.K. companies
- (c) Excluding oil and oil products.
- (d) Net of surplus stores disposals, N.A.A.F.I. remittances, etc. but for cost of camps in Cyprus settled through the Crown Agents see PAYMENTS.
- (e) Including Zionist Gift-dollars surrendered.
- (f) Goods to the value of a further 5.2 are expected free under the Gift-dollar Scheme.

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END

PALESTINE: BALANCE OF PAYMENTS WITH REST OF WORLD

2. SUMMARY

£ millions

	1946		1947				1948			
	Year	I	II	III	IV	Year	Forecast		Year	
							I & II	III&IV		
<u>Identified transactions on Current Account</u>										
Payments	54.6	18.2	16.6	19.4	20.4	74.6	40.5	37.0	77.5	
Receipts	52.3	15.2	11.4	11.1	12.6	50.3	27.6	16.4	44.0	
<u>Surplus/Deficit</u>	<u>2.3</u>	<u>3.0</u>	<u>5.2</u>	<u>8.3</u>	<u>7.8</u>	<u>24.3</u>	<u>12.9</u>	<u>20.6</u>	<u>33.5</u>	
Errors and Omissions (a)	3.1	4.2	.7	.6		4.3				
<u>Identified investment/disinvestment</u>	.8	1.2	<u>4.5</u>	<u>8.9</u>	<u>7.8</u>	<u>20.0</u>	<u>12.9</u>	<u>20.6</u>	<u>33.5</u>	

3. CAPITAL ACCOUNT

£ millions

Net banking assets in U.K. (b)										
<u>increase/decrease</u>										
: Government	3.9	.6	.7	1.0						
: Currency Board	4.9	3.8	1.9	2.0						
: Commercial	1.1	3.2	1.9	5.9						
	.1	1.2	<u>4.5</u>	<u>8.9</u>	<u>7.8</u>	<u>20.0</u>	<u>12.9</u>	<u>20.6</u>	<u>33.5</u>	
Recorded imports of gold	.7									
Other capital movements (a)	?					?			?	
	.8	1.2	<u>4.5</u>	<u>8.9</u>	<u>7.8</u>	<u>20.0</u>	<u>12.9</u>	<u>20.6</u>	<u>33.5</u>	

(a) There is reason to suppose that there have been considerable movements of capital into Palestine on private account.

(b) At 30.11.47

Government	10.1	} 98.2
Currency Board	43.2	
Commercial	44.1	
Loan to H.M.G.	.8	

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